

City of Santa Barbara  
California

Comprehensive  
Annual  
Financial  
Report

Fiscal Year Ended June 30, 2004



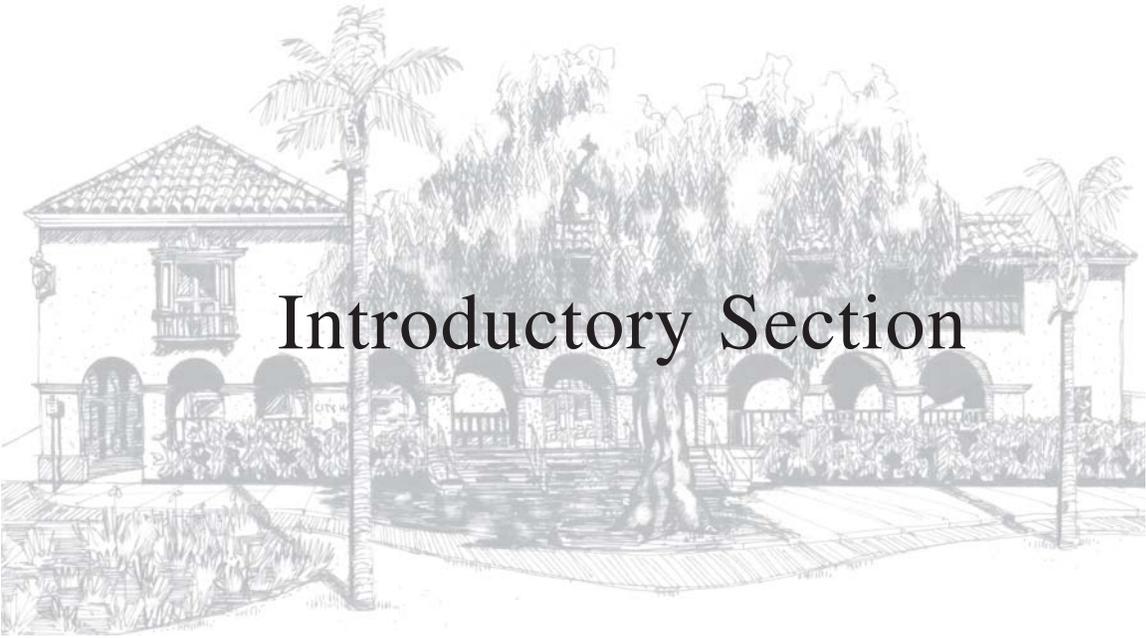
# **City of Santa Barbara, California**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2004**

**Prepared Under the Supervision of**

Robert D. Peirson  
Finance Director



# Introductory Section

**CITY OF SANTA BARBARA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2004**

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# City of Santa Barbara

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September 9, 2004

Honorable Mayor, Members of the City Council, and Citizens of the  
City of Santa Barbara

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Santa Barbara (City) for the Fiscal Year ended June 30, 2004, in accordance with Section 1219 of the City Charter. The report was prepared by the City's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities of the City of Santa Barbara. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. Management asserts that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The CAFR has been prepared using the new financial reporting requirements as prescribed by Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34). GASB 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

The format and content of this CAFR comply with the principles and standards of accounting and financial reporting adopted by the GASB. In addition, the CAFR is organized into three main sections:

1. Introductory Section – Letter of Transmittal with comments on the operations of the City, the City's organizational chart, and a list of City officials;
2. Basic Financial Statements and Required Supplementary Information Section – The Basic Financial Statements include Management's Discussion and Analysis, Government-Wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements, and Required Supplementary Information as well as the Independent Auditors' Report; and
3. Statistical Section – Selected financial and demographic information, generally presented on a multi-year basis.

## **PROFILE OF THE CITY OF SANTA BARBARA**

The City of Santa Barbara is located between the Santa Ynez Mountains and the Pacific Ocean. Santa Barbara offers year-round sunshine, miles of beaches, a colorful history dating back to the Chumash Indian tribes, a rich Spanish heritage, gourmet dining, and spectacular parks; it is often referred to as the American Riviera. The City was incorporated in August of 1850 and today serves a population of 90,473. The City provides a wide range of services to its citizens. These services include police and fire protection, the construction and maintenance of highways, streets, traffic signals and infrastructure, recreational activities and cultural events, parks, parking facilities, water, wastewater, library, airport, harbor, community development, and general administration.

In addition to general government activities, the City also provides services through the Redevelopment Agency, which is a component unit of the City of Santa Barbara. Therefore, the Redevelopment Agency is included in the overall reporting entity presented in the accompanying CAFR. However, the Redevelopment Agency remains separate from the City for all legal purposes and also issues its own separate annual financial report. No express or implied assumption by the City of any liability for the Redevelopment Agency is to be inferred by its inclusion in the CAFR.

## **FISCAL/ECONOMIC OUTLOOK**

The City of Santa Barbara provides a wide range of services and activities to its community. Its mild weather and beautiful scenery also serve to attract a large number of visitors, including international tourists. Thus, revenues such as sales tax, property tax, and transient occupancy tax revenues are affected by State and national events and local economic conditions.

For example, the recessions of the early 1990's and early 2000's both had major impacts on key General Fund revenues, including sales and transient occupancy tax revenues. The more recent downturn, which was exacerbated and cemented by the events of September 11, 2001, had longer-term impacts on key revenues, evidenced by the fact that they are now just getting back to pre-September 11, 2001, levels.

Unfortunately, the biggest challenge facing the City is not adjusting to the loss of revenue, but rather addressing rising costs. The City, as are other agencies in the State, is facing significant increases in retirement costs. In fiscal year 2004, General Fund retirement costs increased \$2.3 million (47%) from the prior year. During the next fiscal year, they will increase an additional \$4.3 million, for a total of \$6.6 million increase in just two years. This issue alone dwarfs all other financial impacts in recent history. This dramatic rise in retirement costs is largely due to the investment losses realized by the State of California's Public Employee Retirement System (PERS) in 2001 and 2002.

As a result of revenue losses and rising costs, each of the adopted budgets for fiscal years 2002 through fiscal year 2005 included expenditure reductions and the use of reserves to balance these budgets. For fiscal year 2004, approximately \$2 million of budget adjustments were implemented, including expenditure cuts and new/additional fee increases. These adjustments were accompanied by the use of reserves for operations totaling \$1.4 million. For fiscal year 2005, an additional \$2 million in adjustments (primarily expenditure cuts) were implemented, and \$1.6 million in reserves were used, to balance the operating budget.

Another major challenge has been the uncertainty and financial impacts caused by the State budget crisis. As the City began development of its fiscal year 2004 budget, the State was facing an unprecedented projected budget deficit of \$38 billion through June 30, 2004. The final State budget, adopted in late July 2003, did impact local governments, although to a lesser degree than expected thanks to the efforts of city officials throughout the state. However, one of the solutions that the State adopted was a one-time extraction of \$1.3 billion statewide of vehicle license fee revenues from local governments in the form of a "loan". The City of Santa Barbara's share of this "loan" is approximately

\$1.7 million. Although the State has vowed to repay the loan in August of 2006, the loss of \$1.7 million to the City is substantial from a budgetary perspective.

For fiscal year 2005, the State still faced substantial budget deficits, leaving local government officials concerned about additional raids on local revenues. However, as a result of a concerted effort on the part of the League of California Cities, along with the California State Association of Counties and the California Special Districts Association, the Governor and local governments reached an agreement on a solution that helps address part of the State budget deficit and would protect against future State raids of local revenues. The agreement calls for local governments statewide to contribute \$1.3 billion in local property revenues to the State in each of the next two years – fiscal years 2005 and 2006. The City of Santa Barbara's portion equated to approximately \$1.25 million per year. In return, the Governor agreed to campaign in favor of a measure added to the November 2004 ballot – called Proposition 1A – that would provide constitutional protection of local revenues against future State reductions. If passed, it would represent a major achievement for local governments and eliminate the uncertainty that has plagued them over the last few years and during previous budget crises.

From a broader perspective, although recent economic reports suggest we are in a recovery mode, there is still uncertainty caused, in large part, by the ongoing conflict in the Middle East. Thus, our long-term financial planning efforts assume key revenues will grow only moderately over the next few years as they did in Fiscal Year 2004.

## **FINANCIAL CONTROLS**

The City's management is responsible for establishing and maintaining a system of internal controls designed to ensure that the City's assets are protected from loss, theft or misuse. The City's system of internal controls must also ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The City's system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe that the City's system of internal controls adequately safeguards assets and provides reasonable assurance as to the proper recording of financial transactions. The City's internal controls are subject to periodic evaluation by the City's management.

### **Single Audit**

As a recipient of federal assistance, the City is also responsible for maintaining a system of internal controls that will ensure compliance with applicable laws and regulations related to those federal programs.

As part of the City's federal single audit, tests are made to determine the adequacy of the internal controls, including that portion relating to federal financial assistance. The federal single audit also seeks to determine whether the City has complied with, in all material respects, all applicable laws and regulations that could have a direct or material effect on a major program.

### **Budgetary Controls**

The City maintains budgetary controls designed to ensure compliance with the legal provisions contained in the annual budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the department level for the General Fund and at the fund level for all other legally adopted budgets.

The City maintains a formal, integrated encumbrance accounting system as one means of ensuring budgetary control. Purchase orders that would result in an overrun of department appropriations are

not released until additional funds have been appropriated. Appropriations for encumbrances outstanding at year-end are re-appropriated in the following fiscal year.

## **OTHER INFORMATION**

### **Cash Management**

Cash temporarily idle during the year was invested in demand deposits, money market funds, certificates of deposit, corporate notes, federal agencies, treasuries, and the State of California's Local Agency Investment Fund (LAIF). At June 30, 2004, the City's investments had an average maturity of approximately 1.28 years and a book yield of 2.7%. The market return on the portfolio for the fiscal year was 0.85%, which includes the decline in market value of investment securities caused by the recent increase in market interest rates. As interest rates increase, the value of investments held declined. However, because the City holds all securities to maturity, interim gains and losses are not realized as the securities are redeemed at par upon maturity.

The City's earnings are lower than in previous years due to a significant and protracted decline in short-term interest rates that began in January 2001 as higher yielding investments have matured and were replaced with lower yielding securities. Although the Federal Reserve Bank has recently begun to raise interest rates, the impact on interest earnings will not be realized immediately. Slowly, and over a period of months and years, the increase in rates will translate into increased interest earnings as existing securities are replaced upon maturity with higher yielding securities.

### **Risk Management**

The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. Insurable property is covered for all risks by policies with a pooled aggregate limit of \$500 million per occurrence. An earthquake and flood limit of \$50 million per occurrence is included as well. Various unique risks such as airport liability, marine hull protection and indemnity, fidelity, and boiler and machinery are insured as well.

The City is a member of the Authority of California Cities Excess Liability (ACCEL) for the purpose of pooling various risks. The City's self insured retention (SIR) for liability is \$1 million. ACCEL members now jointly purchase \$23 million of coverage above their respective SIR's and a \$2 million pooled risk from the commercial market. The City's self-insured retention for workers' compensation is \$750,000. An indemnity policy provides limits of \$45 million in excess of the City's self-insured retention and a \$5 million pooled layer. Employers' Liability is also included with limits of \$5 million.

City management believes that rates charged to user departments may need to be adjusted to fully accumulate the funds needed in the City's Self-Insurance Fund to meet catastrophic losses that may potentially arise.

### **Spending Limitation**

Article XIII B of the California Constitution, also known as the Gann spending limit, restricts the amount of "proceeds of taxes" California governments may spend. As of June 30, 2004, the City had not reached its Article XIII B spending limitation

### **Governmental Accounting Standards Board - Statement No. 34**

In June 1999, the GASB - which sets "generally accepted accounting principles" (financial reporting requirements) for all state and local governments - established a new framework for the financial reports of state and local governments. The new framework or financial reporting model represents the biggest single change in the history of governmental accounting and reporting.

*Known as Statement No. 34: Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* it represents a fundamental revision of the current financial reporting model, which has been in place since 1979. The City implemented the new GASB 34 reporting model in fiscal year 2002. Thus, this is the third year these statements are prepared in accordance with the new requirements. One of the key features of the new model is to include the value of infrastructure assets on the face of the new Government-wide Statements. Due to the tremendous amount of historical data required to capture original cost or estimated original cost for this information GASB has allowed an additional four years to fully implement this requirement. Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems dating back to 1980.

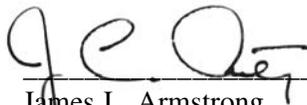
### **Independent Audit**

The City Charter requires an annual audit of the financial statements of the City by an independent certified public accountant. The City has complied with this requirement and the independent auditor's report has been included in this report on page 1 of the Financial Section.

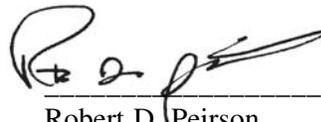
### **ACKNOWLEDGEMENTS**

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the hard work and team effort of the entire Finance Department. We would also like to express appreciation to other City departments that provided assistance and support.

Respectfully submitted,



James L. Armstrong  
City Administrator/  
Clerk/Treasurer



Robert D. Peirson  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Barbara,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zjelke*

President

*Jeffrey R. Emswiler*

Executive Director

**CITY OF SANTA BARBARA**  
**Directory of City Officials**  
**June 30, 2004**

Marty Blum  
Mayor

Dan B. Secord, M.D.  
Councilmember

Helene Schneider  
Councilmember

Roger L. Horton  
Councilmember

Das Williams  
Councilmember

Iya G. Falcone  
Councilmember

Brian B. Barnwell  
Councilmember

James L. Armstrong  
City Administrator/Clerk/Treasurer

Stephen P. Wiley  
City Attorney

Robert D. Peirson  
Finance Director

Karen S. Ramsdell  
Airport Director

Nancy Rapp  
Acting Parks and Recreation Director

Carol L. Keator  
Library Director

Camerino Sanchez  
Police Chief

Warner R. Mc Grew  
Fire Chief

Paul Casey  
Community Development Director

Anthony J. Nisich  
Public Works Director

Joan M. Kent  
Assistant City Administrator

John N. Bridley  
Waterfront Director

**CITY OF SANTA BARBARA**  
**Advisory Boards and Commissions**  
**June 30, 2004**

**Charter Boards and Commissions**

**Membership**

Airport Commission	.....	7
Architectural Board of Review	.....	9
Civil Service Commission	.....	5
Fire and Police Commission	.....	5
Fire and Police Pension Commission	.....	5
Harbor Commission	.....	5
Historic Landmarks Commission	.....	9
Library Board	.....	5
Park Commission	.....	5
Planning Commission	.....	7
Recreation Commission	.....	5
Water Commission	.....	5

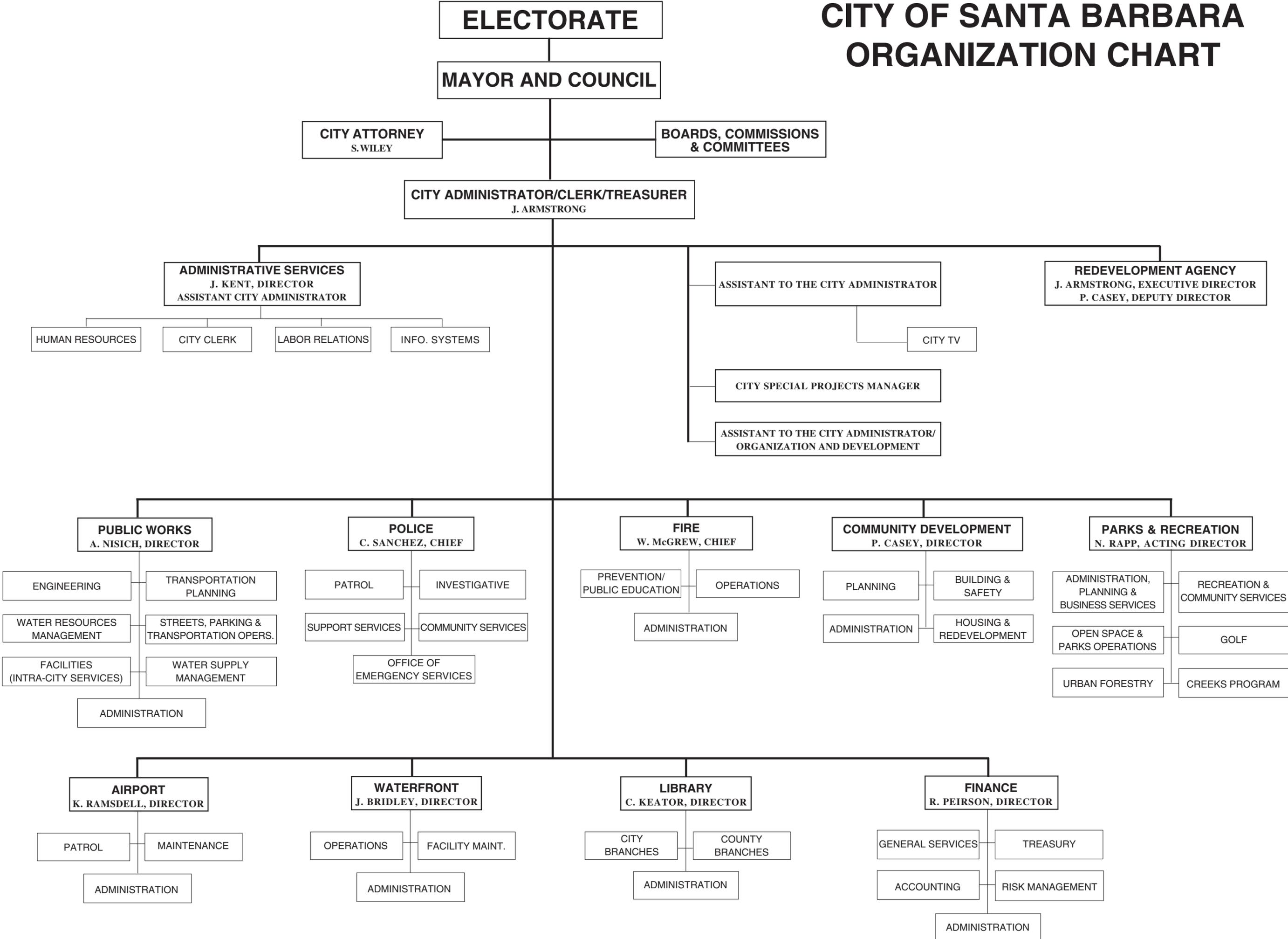
**Committees and Commissions**

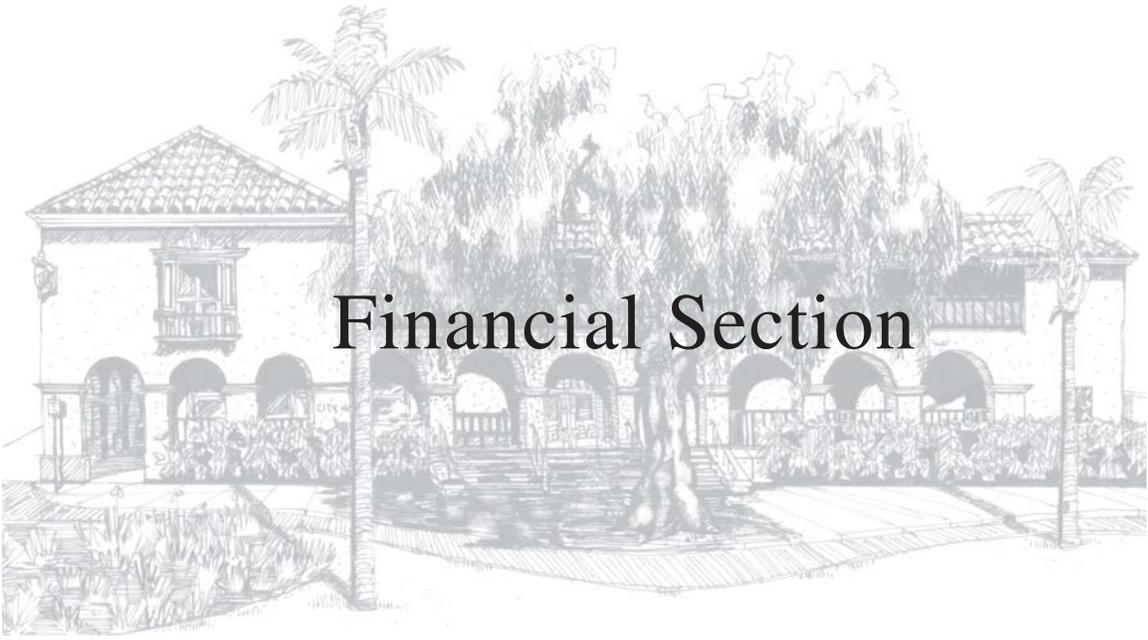
Arts Advisory Committee	.....	7
Central Coast Commission for Senior Citizens	.....	1
Community Development and Human Services Committee	.....	13
Community Events and Festivals Committee	.....	7
Creeks Advisory Committee	.....(voting)	9
	..... (non-voting)	4
Downtown Parking Committee	.....	7
Franklin Center Advisory Committee	.....	7
Lower Westside Center Advisory Committee	.....	7
Sign Committee	.....	5
Transportation and Circulation Committee	.....	7
Westside Center Advisory Committee	.....	7

**Other Advisory Bodies**

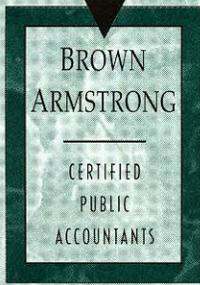
Building and Fire Code Board of Appeals	.....	8
Housing Authority Commission	.....	7
Metropolitan Transit District Board	.....	2
Rental Housing Mediation Task Force	.....	15
Sister Cities Board	.....	3
Vector Control District	.....	1

# CITY OF SANTA BARBARA ORGANIZATION CHART





# Financial Section



BROWN ARMSTRONG  
PAULDEN McCOWN STARBUCK & KEETER  
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- Harvey J. McCown, CPA
- Steven R. Starbuck, CPA
- Aileen K. Keeter, CPA
- Chris M. Thornburgh, CPA

---

- Eric H. Xin, MBA, CPA
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- Melinda A. McDaniels, CPA
- Thomas M. Young, CPA
- Amanda E. Wilson, CPA
- Sharon Jones, CPA, MST
- Diana Branthoover, CPA
- Rosalva Flores, CPA
- Debbie A. Rapp, CPA
- Julie A. Auvil, CPA
- Connie M. Perez, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
Santa Barbara, California

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Santa Barbara, California as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Santa Barbara's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City of Santa Barbara, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The *management's discussion and analysis* and *budgetary comparison* information as listed in the accompanying table of contents are not a required part of the City's basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Santa Barbara, California's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and the statistical tables identified in the table of contents, where applicable, are presented for the purposes of additional analysis and are not a required part to the basic financial statements. These financial statements and schedules are also the responsibility of the management of the City of Santa Barbara, California. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink that reads "Brenton H. Armstrong". The signature is written in a cursive style with a large, stylized initial 'B' and a long, sweeping tail on the 'g'.

Bakersfield, California  
September 9, 2004

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Fiscal Year Ended June 30, 2004**

This section of the City's Comprehensive Annual Financial Report presents an overview of the City's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have included in our letter of transmittal, which can be found on pages 1-5 of this report.

### **FINANCIAL HIGHLIGHTS**

- At the end of fiscal year 2004, net assets of the City totaled \$369.3 million, an increase of approximately \$12.6 million from prior year. Of the total net assets, \$95.9 million is unrestricted and thus may be used to meet the City's ongoing obligations to citizens and creditors.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$161 million, an increase of \$24.8 million from prior year.
- Approximately 20% of the combined fund balance of the governmental funds is unreserved and therefore available for spending at the City's discretion.
- As of June 30, 2004, unreserved fund balance in the General Fund was \$28.1 million, equating to 35% of total General Fund expenditures.

### **OVERVIEW OF FINANCIAL STATEMENTS**

The City's basic financial statements are comprised of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. Each of these sections is discussed below.

#### **Government-wide Financial Statements**

The Government-wide Financial Statements are designed to present financial information about the City as a whole, in a manner similar to the private sector, including the use of accrual-based accounting to recognize its revenues and expenses. Government activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on user fees and charges to fund their operations. Government activities include those traditionally associated with local government, such as public safety (fire and police), community development, public works, library, parks and recreation, and general government (administrative) functions. Business activities include the City's utility operations (water and wastewater), the City's municipal airport, the waterfront/harbor, downtown parking, and golf course.

The Statement of Net Assets presents all City assets, including capital assets, and all related liabilities, including long-term debt obligations. The difference between total assets and total liabilities is presented as "Net Assets," which serves as a measure of the financial health of the City. Over time, an increase in net assets generally indicates that the financial health of the City is improving.

The Statement of Activities provides the details of how the City's net assets changed during the fiscal year. Decreases in net assets are presented as "Expenses;" increases in net assets are presented as "Revenues." Revenues directly attributable to a particular function or program within the City are presented as "Program Revenues."

#### **Fund Financial Statements**

The City, like other state and local governments, uses funds to account for its activities. In general, fund accounting provides a mechanism to separately account for a variety of different funding sources and enables the City to demonstrate compliance with legal and/or contractual requirements that may be associated with these

funds. Thus, the accompanying fund financial statements present individual funds, organized into one of three groups based on the nature of the activities and their purpose: Governmental, Proprietary or Fiduciary Funds. Note that the fund financial statements only present the most significant (i.e., “major”) funds. In addition, the fund financial statements include a schedule that reconciles the fund financial statements to the government-wide financial statements. This is designed to explain the differences created by the integrated approach.

**Governmental Funds** – Most of the City’s basic services are reported in governmental funds. Governmental Funds include the General Fund, special revenue, capital projects, debt service and permanent funds. In the fund financial statements, all governmental fund types are reported using the modified accrual basis of accounting, whereby revenues are generally recognized when measurable and available to finance current operating costs, and expenditures are recognized when the related liability is incurred. In addition, the focus is on inflow (revenue) and outflow (expenditures) of *current financial resources*. As such, the balance sheets of governmental funds are intended to present only short-term assets and liabilities.

The fund financial statements include separate columns, by fund type, for all “major” governmental funds of the City. All “non-major funds” are consolidated into a single column. The details of the “non-major” funds are included in the Required Supplementary Information section of this comprehensive annual financial report.

**Proprietary Funds** – Proprietary funds are used to account for services provided to customers or other City departments and funds that are primarily funded from user charges and fees. Proprietary funds use the accrual basis of accounting and measure the balance and change in *total economic resources*. Accordingly, balance sheets of proprietary funds include *all* assets and liabilities, including long-term receivables, fixed assets, and long-term liabilities. The basis of accounting and measurement focus used to report proprietary fund statements is the same as those used to prepare the government-wide statements. Thus, the proprietary fund statements provide the same, but more detailed, information about these funds, which are included in the “Business-Type Activity” column of the government-wide statements.

Proprietary funds include enterprise funds and internal service funds. The City uses enterprise funds to account for its water, wastewater, airport, golf, downtown parking, and waterfront/harbor operations. Internal service funds are used by the City to account for its intra-city services (motor pool, building maintenance, custodial, and communication), information systems, self-insurance, and duplications operations.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held by the City as trustee on behalf of other agencies or individuals. Fiduciary funds are not presented in the government-wide statements, as their resources are not available to support the operations of the City.

## **Notes to the Financial Statements**

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements.

## **Other Information**

In addition to the basic financial statements and related notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees, budgetary comparison schedules for the General Fund and each major special revenue fund, and schedules and disclosures of the modified approach for reporting the City’s infrastructure.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City has presented its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The following analysis includes a comparison between current and prior year results of operations and year-end balances.

## Governmental Activities

### Statement of Net Assets

Table 1 below summarizes the Statement of Net Assets for Governmental Activities as of June 30, 2004, with comparative totals at June 30, 2003.

	<u>2004</u>	<u>2003</u>
<b>Assets:</b>		
Current and other assets	\$ 198,719,323	\$ 167,048,347
Capital assets (net of depreciation)	92,200,100	89,441,381
Total Assets	<u>290,919,423</u>	<u>256,489,728</u>
<b>Liabilities:</b>		
Current and other liabilities	23,605,676	34,869,607
Long-term liabilities	102,321,171	62,160,125
Total Liabilities	<u>125,926,847</u>	<u>97,029,732</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	73,737,769	63,294,320
Restricted	59,941,441	62,649,496
Unrestricted	31,313,366	33,516,180
Total Net Assets	<u>\$ 164,992,576</u>	<u>\$ 159,459,996</u>

As shown in Table 1, total assets of Governmental Activities were \$290.9 million at June 30, 2004, including \$92.2 million in capital assets (net of depreciation). Of the total \$198.7 million in current assets, \$131 million consists of pooled cash and investments, which are invested in accordance with State law and the City's investment policy, and include funds legally and/or contractually restricted as to their use.

Long-term liabilities at June 30, 2004, include \$82 million in tax allocation bonds issued by the City's Redevelopment Agency and \$3.7 million of outstanding certificates of participation. (See the Capital Asset and Debt Administration section for more detailed discussion of outstanding long-term debt). Of the \$40.2 million increase from prior year, \$22.1 million is attributable to the issuance of series 2003A tax allocation bonds by the Redevelopment Agency (RDA) net of the \$7.2 million in 1993 tax allocation bonds refunded during the year.

Net assets totaling \$165 million include \$59.9 million subject to external restrictions. Net assets also include \$31.3 million in unrestricted assets that are available for discretionary spending, although a portion is designated for emergencies and economic uncertainties pursuant to City Council adopted policy. Total net assets increased from fiscal year 2003 by approximately \$5.5 million (3.5%). This is an extremely favorable outcome given the challenges the City faced this year, particularly in the General Fund, as a result of a continued sluggish economy.

The growth in net assets invested in capital assets grew by approximately \$10.4 million, which stems from the additional capital investment during the year. Restricted net assets declined by \$2.7 million from the prior year.

Unrestricted net assets decreased by \$2.2 million, in large part due to the use of reserves in the General Fund to fund the capital program and to pay for rising benefits costs.

**Statement of Activities**

As discussed earlier, the Statement of Net Assets provides a measure of the financial health of an entity at a specific date in time (i.e., year end). The Statement of *Activities* provides details of how net assets changed from the beginning of the year to the end of the year, and whether net assets increased or decreased. Thus, it indicates whether the City as a whole is better off at June 30, 2004, than it was at June 30, 2003.

Table 2 below summarizes the Statement of Activities for Governmental Activities for the fiscal year ended June 30, 2004, with comparative totals for the fiscal year ended June 30, 2003.

	<b>2004</b>	<b>2003</b>
<b>REVENUES:</b>		
Program Revenues:		
Charges for Service	\$ 23,015,344	\$ 19,421,624
Operating Grants and Contributions	13,474,847	12,533,429
Capital Grants and Contributions	2,820,720	4,130,412
General Revenues:		
Taxes	68,605,894	66,670,830
Motor Vehicle License Fees	4,569,241	5,602,182
Investment Income	2,887,992	4,831,479
Other Revenue	1,952,627	2,203,542
<b>TOTAL REVENUES</b>	<b>117,326,665</b>	<b>115,393,498</b>
<b>EXPENSES:</b>		
Governmental Activities:		
Administration	10,094,067	10,118,254
Public Safety	42,652,924	43,236,284
Public Works	18,235,134	17,976,425
Community Services	20,777,933	19,922,033
Community Development	16,527,804	19,349,201
Debt Service	3,506,223	3,373,131
<b>TOTAL EXPENSES</b>	<b>111,794,085</b>	<b>113,975,328</b>
Increase in Net Assets Before Transfers	5,532,580	1,418,170
Transfers	-	91,213
Increase in Net Assets	5,532,580	1,509,383
Net Assets, July 1	159,459,996	157,950,613
Net Assets, June 30	\$ 164,992,576	\$ 159,459,996

Total revenues of the funds included in the Governmental Activities category were \$117.3 million for the year ended June 30, 2004. Of this total, \$68.6 million (59%) was derived from taxes, including sales tax, transient occupancy tax, utility user's tax, and property tax revenues. This is consistent with the nature of governmental activities, which includes services traditionally financed from general tax revenues. Approximately \$23 million (19%) of total revenues were derived from charges for services, representing fees charged for various services, such as recreation, planning, building, library and engineering, as well as charges for services provided by General Fund departments to other funds. Revenues derived from fees and charges help support programs largely subsidized from general tax revenues and thus reduce the burden on these limited resources.

Total revenues increased by approximately \$1.9 million (1.7%) from the prior year, from \$115.4 million to \$117.3 million. As discussed in more detail later in connection with the analysis of the General Fund, both tax revenues and charges for services realized the biggest growth from prior year but were offset by an estimated \$1.7 million in vehicle license fees that were not received but were “loaned” to the State equal to the first three months of revenue this fiscal year.

Expenses for the year totaled approximately \$111.8 million. The largest component of total expenses was for public safety (fire and police), representing 38% of the total. Community Services expenses, which include parks, recreation, and library services, totaled \$20.8 million.

Overall expenses decreased by approximately \$2.2 million (net) from prior year. The net decrease is the result of the following:

- Capital expenditures decreased by \$4.5 million. In fiscal year 2003, a total of \$7.1 million was expended compared to \$2.6 million in the current year.
- An increase of \$3 million in salary and benefit costs. Virtually all employee groups received salary increases pursuant to multi-year contracts negotiated beginning three years ago. Retirement costs accounted for \$2.3 million of the increase.
- The remaining decrease is attributable to savings in variable costs throughout the Fund.

## Business-Type Activities

### Statement of Net Assets

Table 3 below summarizes the Statement of Net Assets of Business-Type Activities as of June 30, 2004, with comparative totals at June 30, 2003.

	<u>2004</u>	<u>2003</u>
<b>Assets:</b>		
Current and other assets	\$ 86,080,390	\$ 75,024,023
Capital assets (net of depreciation)	<u>196,936,181</u>	<u>182,180,048</u>
Total Assets	<u>283,016,571</u>	<u>257,204,071</u>
<b>Liabilities:</b>		
Current and other liabilities	14,795,077	10,868,304
Long-term liabilities	<u>63,876,971</u>	<u>49,070,996</u>
Total Liabilities	<u>78,672,048</u>	<u>59,939,300</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	139,779,582	138,065,417
Unrestricted	<u>64,564,941</u>	<u>59,199,354</u>
Total net Assets	<u>\$ 204,344,523</u>	<u>\$ 197,264,771</u>

As previously indicated, business-type activities include the City's Enterprise fund operations, including: wastewater, airport, golf, waterfront and downtown parking. These operations are highly capital intensive, devoting a significant portion of their financial resources to the maintenance and replacement of major capital equipment and facilities. This is evidenced by the higher proportion of capital assets to total assets in relation to funds included within the Government Activities category shown in Table 1. In fact, of the \$283 million in total assets at June 30, 2004, approximately \$196.9 million (69%) relate to capital assets. In addition, capital assets increased by approximately \$14.8 million from prior year primarily as a result of capital acquisitions and improvements made during the year for two major projects: the Cater Water Treatment Plant and Sheffield Reservoir Projects, which are discussed later in this report.

All categories of net assets have a positive balance, which means that, as a whole, the individual funds comprising the business-type activities have sufficient current assets to satisfy both current and long-term liabilities, and still have assets remaining for discretionary spending. In short, the funds included within this category are in excellent financial condition.

The make-up of net assets, however, changed considerably from the prior year. Net assets invested in capital increased by approximately \$1.7 million, while unrestricted net assets increased by approximately \$5.4 million. This is due to favorable operations in most of the proprietary funds yielding approximately \$6.3 million of net program revenue across all of the funds. The Water and Airport Funds invested a significant (approximately \$14 million and \$4 million, respectively) amount into capital assets during the year. However, though the Water Fund invested over \$14 million, they were reimbursed in the form of loans, as discussed elsewhere in this report, yielding a minimal increase in net assets invested in capital (net of related debt). As of June 30, 2004, approximately \$8.3 million of these costs remained un-reimbursed. Unrestricted net assets will be restored once the project costs are fully reimbursed.

**Statement of Activities**

Table 4 summarizes the Statement of Activities for Business-Type Activities for the fiscal years ended June 30, 2004 and June 30, 2003.

<b>Table 4</b>		
<b>STATEMENT OF ACTIVITIES</b>		
<b>Business-Type Activities</b>		
<b>Fiscal Years Ended June 30, 2004 and 2003</b>		
	<u>2004</u>	<u>2003</u>
<b>REVENUES:</b>		
Program Revenues:		
Charges for Service	64,056,302	59,027,453
Operating Grants and Contributions	9,159	139,369
Capital Grants and Contributions	5,162,809	408,418
General Revenues:		
Investment Income	719,412	2,668,365
Other Revenue	15,978	6,333
TOTAL REVENUES	<u>69,963,660</u>	<u>62,249,938</u>
<b>EXPENSES:</b>		
Business Activities:		
Water	22,841,771	23,276,985
Wastewater	9,901,709	10,698,739
Airport	12,812,342	11,014,396
Waterfront	10,920,887	10,568,438
Other Non-Major Funds	6,407,199	6,918,488
TOTAL EXPENSES	<u>62,883,908</u>	<u>62,477,046</u>
Incr. (Decr.) in Net Assets Before Transfers	7,079,752	(227,108)
Transfers	-	(91,213)
Increase (Decrease) in Net Assets	7,079,752	(318,321)
Net Assets, July 1	<u>197,264,771</u>	<u>197,583,092</u>
Net Assets, June 30	<u>\$ 204,344,523</u>	<u>\$ 197,264,771</u>

Total revenues for the fiscal year ended June 30, 2004, were \$70 million, an increase of \$7.7 million from prior year. This is net of a \$5 million increase in Charges for Services, a \$4.6 million increase in grants, and a decrease of \$1.9 million in Investment Income, as discussed further below.

Charges for services include fees and charges for utilities, such as water and wastewater, as well as charges relating to the Airport, Waterfront, Downtown Parking and Golf Enterprise Funds. The increase of \$5 million from prior year stems from a combination of fee increases and increased activity. For example, the Water and the Wastewater Funds raised their rates in fiscal year 2004 by 4%. The rate increase and customer usage combined to generate additional revenues of \$2.3 million, and \$553,211, respectively. The Airport Fund's program of upgrading and maintaining the condition of commercial lease property, coupled with the general increase in volume of passengers, resulted in \$853,851 of additional revenues.

The Airport currently has several major projects in process. The majority of these are funded from various Federal Aviation Administration (FAA) grants. Once the Airport has spent the money on the approved projects, the FAA reimburses the Airport for the expenditures in the form of capital grants. Capital grant revenues from the FAA totaled almost \$5.1 million this year.

Investment Income showed a dramatic change. The City pools the cash of all funds for investment purposes. All investments are subject to State Law and the City's investment policy. Because of the sharp decline in short-term interest rates beginning in fiscal year 2001, the City's yield on its pooled investments has declined correspondingly. The City's yield on investments fell from 3.5% at June 30, 2003 to 2.7% at June 30, 2004. From fiscal year 2003 to fiscal year 2004, interest earnings fell by approximately \$1.9 million. Of this decline, \$1.3 million was attributable to the decline in fair market value of the City's portfolio at June 30, 2004. This decline in market value represents only a "paper" loss, as the City holds all investments to maturity, which are redeemed at par. Excluding the market value adjustment, investment earnings declined by \$622,043 (2.3%). This has had a significant impact on the individual funds included within the Business-Type Activities category.

Expenses for the fiscal year ended June 30, 2004, totaled almost \$62.9 million, an increase of just \$406,861 from the prior year. The net increase is the result of varying results in each fund. The Airport and Waterfront funds showed increased expenses of \$1.8 million and \$352,449, while expenses of the other funds decreased by \$1.7 million. The largest increase in the Airport expenses was due to materials, supplies, and services with the largest increases resulting from non-building improvements. Wastewater Fund expenses were \$797,000 below prior year, primarily due to debt service payments that were made from debt service fund reserves held by the trustee at the end of the bond term. Water Fund expenses were \$435,000 under prior year due to savings in various operating expenses. These savings were partially offset by an increase in salary and benefit expenses in fiscal year 2004.

In total, net assets increased by \$7.1 million for the year ended June 30, 2004. This "net income" is primarily attributable to the strong operations and net program revenue at the Airport (\$4.5 million) and the Water Fund (\$2.3 million).

## **FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS**

As previously noted, the City uses fund accounting to demonstrate compliance with legal and contractual requirements. This section provides an analysis and discussion of individual funds and fund types presented in the financial statements.

### **Governmental Funds**

#### *Analysis of Year-End Balances*

As of June 30, 2004, governmental fund assets totaled \$185.2 million. Of this total, \$66.2 million consisted of cash and investments, and \$64.8 consisted of cash and investments held with bond fiscal agents (trustees). An additional \$39.9 million represents outstanding loans receivable, of which the vast majority relates to the City's

home rehabilitation loan program funded from the Community Development Block Grant program and the Redevelopment Agency's Housing Program.

Fund balance (assets minus liabilities) of governmental funds totaled \$161 million at June 30, 2004. Of this total, \$128.7 million was reserved, \$27 million was designated, and the balance of \$5.3 million was unreserved and undesignated. The *reserved* portion of total fund balance includes \$40 million in bond proceeds held by a fiscal agent in connection with the sale of the 2001 and 2003 Tax Allocation Bonds by the Redevelopment Agency (RDA). These funds are restricted to projects for which the bonds were sold, including the construction of a new parking structure on Lot No. 6 and other redevelopment projects in the downtown area. Reserved fund balances also include \$27.5 million in outstanding loans receivable in the RDA Housing Fund. Because these loans are long-term, they are not currently available for appropriation and are thus reserved. The *designated* portion of fund balance consists largely of funds set aside in the General Fund, pursuant to City policy, for emergencies, contingencies, and revenue shortfalls caused by economic downturns. The policy requires that all operating funds, including the General Fund, set aside an amount equal to 25% of its operating budget. As of June 30, 2004, all funds were in compliance with this policy.

### ***Results of Operations***

Total governmental funds revenues for the fiscal year ended June 30, 2004, were \$116.5 million. The largest component of total revenue was Taxes at \$77.3 million, making up 66.3% of total governmental funds revenues. This is consistent with the nature and purpose of governmental funds, particularly the General Fund, in that they include programs that are largely supported from tax subsidies. Taxes received by the General Fund include sales, transient occupancy, utility users and property taxes. The Redevelopment Agency (RDA) is almost entirely funded from property tax revenues. This stems from the nature and purpose of redevelopment agencies in that improvements to "blighted" areas in the community are financed from the sale of bonds, which are repaid from the incremental property tax revenues that are generated as a result of the increased value of the properties realized from the improvements.

Total governmental expenditures totaled \$120.6 million at year-end. As always, a large portion of overall expenditures relates to fire and police (public safety), which make up \$42.1 million (35%) of total expenditures. Virtually all of these costs are funded out of the General Fund, consuming almost 53% of total General Fund revenues. A total of \$18.9 million was expended for Community Services, which includes library, parks and recreation; \$17.2 million was spent on Public Works, which includes significant funding towards the City's streets maintenance and capital programs.

In total, governmental funds ended the year with a surplus of \$24.8 million. As such, the City's total available resources for financing next year's programs and services increased from the end of last year. This total includes a net "loss" (i.e., use of reserves) in the General Fund of over \$3.1 million, which was used to fund its capital program and other essential programs. In contrast, the General Fund's final budget included the planned use of reserves totaling over \$1 million for capital (note: the use of reserves for capital and other one-time costs is consistent with City policy and past practice). In addition, it included another \$4.8 million in the planned use of reserves for operations as part of a multi-year and comprehensive strategy to address projected deficits over the next few years caused by revenue shortfalls and rising costs. Thus, only \$2 million in reserves was needed due to better than expected revenue and expenditure results, which is clearly a favorable outcome.

The Redevelopment Agency Special Revenue Fund and Capital Projects Fund ended the year with a surplus of \$1.5 million and \$31.3 million, respectively. These surpluses were primarily the result of the issuance of RDA bonds, but also a conscious decision to hold back capital and special project spending in light of potential impacts to redevelopment agencies resulting from State budget action. During fiscal year 2004, in a highly politicized State budget process, there were several proposals being considered and discussed by the Governor and State legislators to address the State's unprecedented projected budget deficit that included a cut to redevelopment agency revenues. In fact, the State did ultimately approve a \$704,000 million shift of property tax revenues from the City of Santa Barbara's Redevelopment Agency. As a result, the Agency decided to defer projects until the potential impacts of the state budget were more clear.

## **Proprietary Funds**

### ***Highlights of Year-End Balances***

Total assets of proprietary funds were \$283 million as of June 30, 2004. Of this total, \$196.9 million (69%) consisted of capital assets used in the operations of the various funds. This is consistent with the nature and purpose of the services provided by proprietary funds, which include the Water, Wastewater, Airport, Golf, Waterfront, and Downtown Parking Enterprise Funds. These services are highly capital intensive and require ongoing funding for capital maintenance and improvement.

Cash and Investments is the second largest asset category, comprising almost 23% of total assets. As of June 30, 2004, total cash and investments (including cash with fiscal agents) of proprietary funds totaled \$67.8 million, which is an increase from the prior year balance of \$63.4 million. The \$4.4 million increase was primarily due to favorable results from the Water and Airport Funds where cash increased by \$885,783 and \$2.9 million respectively. Of the total \$2.9 million increase in cash from the Airport, operations added approximately \$2.3 million of the increase while capital and related financing activities added \$451,722. The increase in Water Fund cash and investments is the net of \$.8 million increase from operating activities and a \$5.2 million use of cash from capital and related financing activities, primarily for the Cater Water Treatment Plant and Sheffield Reservoir Projects, as discussed further below.

Net assets of proprietary funds totaled \$204 million as of June 30, 2004, an increase of \$7.1 million from the prior year. Net assets include amounts invested in capital assets, net of depreciation, and unrestricted amounts. As of June 30, 2003, the portion of net assets invested in capital assets was \$138.1 million, whereas that amount grew to \$139.8 million as of June 30, 2004, an increase of approximately \$1.7 million. This increase corresponds to capital expenditures in fiscal year 2004, as discussed in the previous paragraph. The unrestricted portion of net assets increased from approximately \$59.2 million to \$64.6 million, indicating an increase in working capital from the prior year. The increase in working capital is due, in part, to the timing of cash flows. As noted above, a large amount of funds were expended for the Cater Water Treatment Plant and Sheffield Reservoir Projects. The projects are being financed by long-term loan agreements with the State Department of Water Resources. In accordance with the loan agreements, loan funds are provided (i.e., reimbursed) periodically as the project expenditures are incurred. As of June 30, 2003, a significant portion of costs had not been reimbursed, resulting in a temporary decline in cash and, thus, net assets. Although most of these amounts were received by the City in the current year, there are current year costs that are unreimbursed as of June 30, 2004. This pattern will, in fact, continue until all costs have been paid and reimbursed.

### ***Results of Operations***

Total proprietary fund operating revenues for the fiscal year ended June 30, 2004, were approximately \$63.3 million, an increase of \$5 million (8.5%) from prior year. Operating revenues increased in all funds. The overall increase in operating revenues was primarily attributable to the Water Fund, with an increase of almost \$2 million (8.5%). Effective on July 1, 2003, water service rates were increased by 4%, which was expected to generate approximately \$1.5 million in additional sales revenues in relation to fiscal year 2003. Additionally, because of a slight increase in water usage in addition to the rate increase, sales revenue increased by approximately \$2.3 million.

Airport Fund revenues increased materially from the prior year in two categories: Commercial/Industrial Leases and Terminal Leases. Commercial/Industrial Leases revenues are generated from the properties along Hollister Avenue, separate from the Airport facilities, which generate substantial lease income from long-term leases. In fiscal year 2004, Commercial/Industrial Lease revenues increased by \$853,851 (8.6%). Over the last few years, the Airport has made a significant investment in the commercial and industrial properties, adding/improving the infrastructure (roads, curbs, storm drains, lighting, etc.) with the purpose of attracting more and better tenants at higher lease rates. In fact, the Airport has been successful in this regard as lease agreements expire, or as tenants have left, lease rates have been adjusted to the fair market rate and have generated an increasing amount of income.

Terminal Lease revenues include, among other things, parking revenues. In fiscal year 2003, parking revenues totaled \$2.2 million, whereas in fiscal year 2004 they were \$2.5, an increase of \$268,103. This increase is directly the result of increased passenger counts, which increased by over 10% this year.

Operating expenses of proprietary funds totaled just under \$62.9 million, a \$406,861 increase from the prior year. As previously stated, this small net increase is attributable to offsetting changes across the various proprietary funds. The largest increase of almost \$1.8 million is attributable to the Airport while the largest decrease of \$797,031 is attributable to the Wastewater Fund.

Non-operating revenues, which include taxes, investment income, interest expense, grants/contributions, and other miscellaneous items changed significantly from prior year. Investment income decreased significantly across all proprietary funds. In fiscal year 2003, investment income totaled almost \$2.7 million, whereas only \$719,412 was earned in fiscal year 2004, a decline of \$1.9 million (73%). Of this decline, \$1.3 million was attributable to the book adjustment to reflect the fair market value of the City's portfolio at June 30, 2004. Excluding the market value adjustment, investment earnings declined by \$622,043 (2.3%). This has had a significant impact on the individual funds included within the Business-Type Activities category.

## **GENERAL FUND FINANCIAL AND BUDGETARY HIGHLIGHTS**

The General Fund is the main operating fund of the City. Its revenues are primarily derived from taxes and intergovernmental sources, which are used to pay for the traditional services provided by local government - public safety, library, parks & recreation, community development (building and planning), and public works.

The originally adopted budget of the General Fund, including transfers, totaled \$81.7 million, including \$1.5 million in operating transfers. The amended budget, which includes unspent, but encumbered appropriations carried forward from fiscal year 2003, as well as Council-approved adjustments during the year, totaled \$86.3 million.

The events of September 11, 2001, and the economic downturn that resulted from it, continue to impact local revenues. Moreover, continued cost increases add to the existing challenges. The adopted fiscal year 2004 budget reflected \$2 million in combined expenditure reductions and revenue enhancements to help offset a projected \$4.4 million budget deficit. The balance of the projected deficit was closed through the use of reserves totaling \$2.4 million.

As discussed in more detail below, the actual results of the General Fund for the year ended June 30, 2004, were much more favorable than anticipated. Revenues were \$867,750 below budget but expenditures ended the year \$3.7 million under budget. This resulted in almost a \$2.7 million favorable variance between budget and actual.

Table 5 summarizes General Fund revenues for the year ended June 30, 2004, in relation to budget, with a comparison to prior year totals.

**Table 5**  
**SUMMARY OF REVENUES**  
**GENERAL FUND**  
**Fiscal Year Ended June 30, 2004**  
**(With Comparisons to Fiscal Year Ended June 30, 2003)**

	Current Year Analysis				Prior Year Analysis	
	Annual	Actual	Variance		Prior Year	Variance
	Budget		\$	%	Actual	Prior Yr To Current Yr
Sales & Use Tax	\$ 18,042,000	\$ 18,419,580	\$ 377,580	2.1%	\$ 17,903,527	2.9%
Property Tax	10,992,200	11,197,742	205,542	1.9%	10,373,212	7.9%
Utility Users Tax	5,607,700	5,498,926	(108,774)	-1.9%	10,886,009	-49.5%
Transient Occupancy Tax	10,273,900	10,365,683	91,783	0.9%	9,864,403	5.1%
Franchise Fees	1,982,600	2,055,862	73,262	3.7%	1,769,584	16.2%
Business License Tax	1,876,300	1,925,832	49,532	2.6%	1,831,973	5.1%
Property Transfer Tax	408,000	708,746	300,746	73.7%	874,582	-19.0%
<b>Total Taxes</b>	<b>49,182,700</b>	<b>50,172,371</b>	<b>989,671</b>	<b>2.0%</b>	<b>53,503,290</b>	<b>-6.2%</b>
License & Permits	53,934	81,389	27,455	50.9%	51,794	57.1%
Fines & Forfeitures	2,697,245	2,627,881	(69,364)	-2.6%	2,215,764	18.6%
Use of Money & Property	1,560,000	780,677	(779,323)	-50.0%	2,208,505	-64.7%
Intergovernmental	6,723,242	5,103,830	(1,619,412)	-24.1%	6,101,665	-16.4%
Fee & Services	13,581,948	13,947,735	365,787	2.7%	12,195,766	14.4%
Miscellaneous	5,738,178	5,955,606	217,428	3.8%	5,284,075	12.7%
Operating Transfers In	1,003,785	887,428	(116,357)	-11.6%	2,521,488	-64.8%
<b>Total Revenues</b>	<b>\$ 80,541,032</b>	<b>\$ 79,556,917</b>	<b>(984,115)</b>	<b>-1.2%</b>	<b>\$ 84,082,347</b>	<b>-5.4%</b>

The amended General Fund revenue budget totaled \$80.5 million, as shown in Table 5. In total, General Fund revenues were below budget by \$984,115 (-1.2%). Although Utility Users Tax (UUT) revenues fell short of budget by \$108,774, total tax revenues ended the year \$989,671 (2.0%) above budget. This favorable variance was due to the continued strength in the local real estate market, resulting in a \$205,542 surplus in Property Tax revenues and a \$300,746 surplus in Real Property Transfer Tax revenues. Sales Tax revenue showed sustained growth in the second half of the year, showing a \$377,580 surplus at year-end. Total revenues were below prior year totals by over \$4.5 million; however, the entire decline is due to a structural change made this year to report 50% of UUT revenues in the Streets Fund. This change reduced overall General Fund revenues by \$5.5 million.

Property Tax revenue grew by 7.9%, while Transient Occupancy Tax (TOT) and UUT increased by 5.1%. Community Development Department fees and charges, specifically planning-related fees, also grew well above expectations, thus, contributing significantly to the overall favorable revenue variances compared to budget and prior year in the General Fund. The growth in planning revenues was the result of a boon in residential improvement projects that was created by historically low mortgage interest rates whereby homeowners were able to refinance existing mortgages to lower interest costs and cash out some of their equity.

Intergovernmental revenue was under budget by approximately \$1.6 million this year. Of the total \$6.7 million budgeted for Intergovernmental revenue, \$5.8 million relates to Motor Vehicle License Fees (VLF), which ended the year \$1.45 million under budget. VLF is charged to registered vehicles in-lieu of property taxes and is based on the value of the vehicle. As part of its adopted fiscal year 2004 budget, the State "borrowed" three months of VLF backfill payments from local governments. The City's share of lost backfill revenues is approximately \$1.7 million. This is scheduled to be repaid in fiscal year 2006-2007.

Use of Money and Property revenue was under budget by \$779,323. Use of Money and Property revenues consist almost entirely of interest income earned on the City's investment portfolio. In general, interest income is a function of prevailing interest rates and the total balance of investments in the portfolio. Interest earnings have been on the decline since fiscal year 2001 when the Federal Open Market Committee began lowering rates from 6.5% to a low point of 1%. The City purchases securities and generally holds them until they mature. In this protracted declining interest environment, many of our higher-yielding securities matured and were replaced with lower-yielding investments. As evidence of this, the City's yield on investments declined from 3.5% as of June 30, 2003 to 2.7% on June 30, 2004, and resulted in a 20.3% (\$449,349) decrease in revenues from prior year. The overall investment earnings are offset by an adjustment required by Generally Accepted Accounting Principles to reflect the change in the fair market value of our investment portfolio since the prior year end. The fair market value of our portfolio decreased \$978,479 this year and, accordingly, investment earnings were reduced by this amount.

Total General Fund expenditures for the year ended June 30, 2004, were \$82.7 million (including transfers), resulting in a favorable variance from budget of over \$3.7 million (4.2%). In general, year-end expenditures typically fall below budget due to several key factors. First, due to the normal turnover in staffing, the General Fund realized salary and benefit savings. However, a hiring "chill" implemented by the City in February 2003 remains in effect and has generated additional savings above what is typically realized. Secondly, certain costs are typically encumbered and carried forward each year and, by their nature, create variances between budgeted and actual expenditures at year-end. These are essentially timing differences rather than actual savings. Special projects behave in the same manner in that they typically are multi-year efforts and thus often leave substantial unexpended balances at year-end. Almost \$150,000 of appropriations for special projects were carried forward into fiscal year 2005.

Total expenditures (including transfers) were under prior year by approximately \$2.4 million (-2%). This is primarily due to a structural change implemented in fiscal year 2004 for the accounting of Utility Users' Tax (UUT) revenue. Pursuant to City ordinance, 50% of UUT is restricted to streets maintenance and improvement. Prior to fiscal year 2004, most of the streets maintenance programs were accounted for in the General Fund, and a transfer was made into the Streets Capital Fund for the capital portion. Last year, \$2.4 million was transferred for these purposes. Beginning in fiscal year 2004, all of the restricted portion of UUT (50%), along with all of the streets programs, are accounted for in the Streets Fund.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table 6 below summarizes the City's capital assets by class and by type of activity.

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
Land	\$ 47,795,017	\$ 19,201,133	\$ 66,996,150
Buildings	9,437,990	12,398,462	21,836,452
Building Improvements	1,029,476	1,914,353	2,943,829
Improvements Other Than Buildings	17,128,334	80,334,963	97,463,297
Equipment	7,559,654	7,220,115	14,779,769
Underground Piping	-	35,621,001	35,621,001
Construction in Progress	7,200,239	40,246,154	47,446,393
Infrastructure	2,049,390	-	2,049,390
<b>TOTALS</b>	<b>\$ 92,200,100</b>	<b>\$ 196,936,181</b>	<b>\$ 289,136,281</b>

It is important to note that capital assets are reported at historical cost, net of accumulated depreciation. These amounts do not represent the market value or replacement cost of City assets, which would be significantly higher. Historical cost is used, pursuant to accounting standards, to provide an objective basis for reporting capital assets.

As shown in Table 7, capital assets totaled \$289.1 million, an increase of \$17.5 million from prior year, with most of the increase relating to Business-Type Activities. Over \$22 million was spent and added to Construction in Progress during the year for two major Water Fund projects: the Sheffield Reservoir Project and the Cater Water Treatment Plant Project. Both projects are being financed by low-interest, long-term loans from the State of California Department of Water Resources. The Cater Strategic Plan includes projects that will ensure compliance with U.S. Environmental Protection Agency Drinking Water Regulations. The Sheffield Project involves replacing an uncovered reservoir with two 6.5 million gallon buried concrete reservoirs in order to comply with more stringent drinking water standards.

The largest class of assets is "Improvements Other Than Buildings," totaling over \$97.5 million. These assets include improvements to land, parking structures, and other improvements to assets other than buildings. The majority of these assets relate to business type activities and are an integral part of their operations.

Governmental funds included in the Governmental Activities category have been required to capitalize the costs of acquiring or constructing infrastructure assets beginning in fiscal year 2002. Infrastructure assets include roads, curbs, gutters, street lights, bridges, etc. As shown in Table 6, the cost of infrastructure constructed since fiscal year 2002 totaled \$2 million. By fiscal year 2006, the City is required, pursuant to newly implemented accounting standards, to capture infrastructure assets acquired or constructed since fiscal year 1981. Clearly, infrastructure assets are a significant component of total City assets. Therefore, by fiscal year 2006, infrastructure assets will represent a more significant portion of total assets in the schedule contained in Table 6.

Additional information on the City of Santa Barbara's capital assets can be found in Note 4 of this report.

## Long-Term Debt

Table 7 below summarizes outstanding long-term debt associated with both Governmental Activities and Business-Type Activities.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Certificates of Participation	\$ 3,725,700	\$ 34,734,300	\$ 38,460,000
Revenue Bonds	-	6,255,000	6,255,000
Tax Allocation Bonds	82,035,000	-	82,035,000
Loans	-	21,898,823	21,898,823
	<u>\$ 85,760,700</u>	<u>\$ 62,888,123</u>	<u>\$ 148,648,823</u>

As shown in Table 7, the City had approximately \$148.6 million in long-term debt outstanding at June 30, 2004. This is a net increase of \$33.7 million from prior year.

With respect to the Governmental Activities, the outstanding \$3.7 million in certificates of participation (COP's) were issued in fiscal year 2002 to refund the 1993 COP's, thereby capturing more favorable interest rates and lowering interest costs. These COP's are the only debt of the General Fund, representing just 4.6% of total General Fund revenues.

The outstanding \$82 million tax allocation bonds relate to the City's Redevelopment Agency. This includes the 2001 and 2003A Tax Allocation Bonds issued in July 2001 and December 2003, respectively, to fund the construction of a new parking structure on Lot No. 6 and other redevelopment projects.

The outstanding \$21.9 million in loans payable relate to the Water Fund. This includes a new loan executed during the year in the amount of \$7,961,877 for the Sheffield Reservoir Project and additional draws of \$5,744,793 for the Cater Water Treatment Plant Plan Project, as discussed previously in this report.

Additional information on the City of Santa Barbara's long-term debt can be found in Note 6 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal environment facing the City of Santa Barbara has been difficult for the past three years. It has been influenced by three major factors: a sluggish national and state economy, rising costs, and severe State budget problems. As a result of these factors, the City adopted another one-year instead of the normal two-year financial plan for fiscal year 2005. Economic indicators have shown signs of continued growth over the last six months of fiscal year 2004. With many of the uncertainties now resolved with the State budget, the City will resume a two-year financial plan beginning in fiscal year 2006.

The events of September 11, 2001 and the national economic slowdown have continued to have a significant impact on the City's overall revenues. Local tourism and retail spending dropped dramatically, affecting both transient occupancy and sales tax receipts. Additionally, in fiscal year 2004, the State borrowed approximately \$1.7 million in VLF backfill payments which exacerbated an already difficult economic climate. As a result of

the revenue slowdown, City operating departments were asked to reduce expenditures in fiscal year 2004 and in fiscal year 2005. In addition, a hiring “chill” has been in effect since February of 2002. These short terms efforts have been very successful, and the City has been able to minimize the use of reserves in order to balance the City’s operating budget, as previously noted.

The national and local economies are showing signs of a moderate recovery. Key revenues tied to local economic conditions, such as sales taxes and transient occupancy taxes, posted moderate gains in fiscal year 2004. For fiscal year 2005, each of these tax revenues is projected to grow by 4%. We are also expecting property tax revenues to grow 7% next year due to the strong real estate market. However, as part of the State’s budget, the State will take over \$1.2 million of property taxes from the City as the ERAF shift for fiscal years 2005 and 2006.

The biggest challenge to balancing the fiscal year 2005 budget was not the sluggish economy, but rising retirement costs. For example, Due to the poor performance of the Public Employees Retirement System (PERS) investment portfolio, the City has realized major increases in retirement costs. In fiscal year 2004, required contributions to PERS rose by \$1.9 million. These costs are estimated to increase in fiscal year 2005 by another \$4.8 million, a (59%) increase from fiscal year 2004, for a total PERS cost of \$12.9 million in the General Fund. The challenges facing the City are not unique. Virtually all cities across the State are facing increasing costs related to health care, retirement contributions, workers’ compensation costs and property and liability insurance premiums.

After considerable debate and much consternation, the State adopted its fiscal year 2005 budget on July 27, 2004. Once again, the State solved part of its deficit on the backs of local government. The biggest impact was a shift in property tax revenues from redevelopment agencies and cities, totaling \$1.3 billion statewide in each of the next two years. The impact to the City of Santa Barbara Redevelopment Agency in fiscal years 2005 and 2006 will be approximately \$1.3 million in each year, and the City’s share will be \$1.25 million in each year. In exchange for the agreement, the Governor agreed to campaign for passage of a Constitutional amendment on the November ballot that would protect local government revenues from raids by the State in the future. Under the amendment, only a declaration of a fiscal emergency by the Governor and a 2/3 vote of the legislature could allow the State to take revenues from local governments. If funds are taken, the State will be required to repay them with interest. The agreement also secured the payment for all unpaid State mandated reimbursements. As of the date of this printing, this constitutional amendment was approved by the California voters.

As a result of sound budget policies and fiscal management, the City of Santa Barbara is well positioned to meet the current and upcoming challenges. Although the impacts of the economic downturn continue to affect City revenues, these impacts have been incorporated into revenue estimates, and measures have been implemented to address previous revenue shortfalls. In addition, during the “boom” years of the late 1990’s, the City retained a portion of the revenue growth to increase its reserve levels specifically designated for economic downturns. These reserves will continue to be used, as needed, over the next few years to ease the organization through the transition to a balanced budget.

As a long-term strategy, the size of the City workforce has been reduced, through attrition, to help offset increasing costs and to lower the overall cost structure of the organization. This will provide a leaner and presumably more efficient organization that can more effectively respond to future challenges. As a part of this downsizing, the adopted fiscal year 2005 budget includes the elimination of 11.9 full-time equivalent positions. Clearly, with a smaller organization, there will be impacts to services; the goal, however, is to minimize these impacts by establishing a more efficiently run organization. Future reductions in staffing may be necessary to balance the General Fund budget.

The long-term strategy of creating a smaller and more efficient organization will be helped by the recent implementation of a performance management program throughout the City. This program is now in its second full year and it includes measurable objectives and performance measures for every program area in the City. Combined with a greater emphasis on better cost accounting, this program will assist management and staff in identifying opportunities for improvement and efficiency. This is a major effort requiring a significant investment of time and resources. However, we believe measuring the performance of City operations makes

good business sense. More importantly, it provides the community, Council and staff with objective information from which rational decisions regarding City services can be made.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, separate reports of the City's component units, or need any additional financial information, contact the City's Finance Department located at 735 Anacapa Street, Santa Barbara, California, 93110, (805) 564-5336, or email Robert Samario, Assistant Finance Director at [bsamario@SantaBarbaraCa.gov](mailto:bsamario@SantaBarbaraCa.gov).

**CITY OF SANTA BARBARA**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 77,727,041	\$ 64,513,258	\$ 142,240,299
Accounts receivable, net	8,678,658	3,975,213	12,653,871
Accrued interest receivable	1,114,491	-	1,114,491
Due from other agencies	832,428	719,469	1,551,897
Due from fiduciary funds	21,322	-	21,322
Internal balances	1,433,469	(1,433,469)	-
Inventory	882,077	-	882,077
Prepaid assets	75,713	5,363,053	5,438,766
Deferred charges	2,742,445	3,321,546	6,063,991
Loans receivable	39,936,818	6,338,385	46,275,203
Assets available for resale	433,952	-	433,952
Restricted assets:			
Cash with fiscal agent	64,840,909	3,282,935	68,123,844
Capital assets (net of accumulated depreciation):			
Land	47,795,017	19,201,133	66,996,150
Buildings	9,437,990	12,398,462	21,836,452
Building improvements	1,029,476	1,914,353	2,943,829
Other improvements and drainage systems	17,128,334	80,334,963	97,463,297
Equipment	7,559,654	7,220,115	14,779,769
Infrastructure	2,049,390	-	2,049,390
Underground piping	-	35,621,001	35,621,001
Construction in progress	7,200,239	40,246,154	47,446,393
Total assets	<u>290,919,423</u>	<u>283,016,571</u>	<u>573,935,994</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	2,441,754	4,697,964	7,139,718
Accrued interest payable	974,143	566,396	1,540,539
Accrued salaries and benefits	4,458,303	979,335	5,437,638
Other accrued liabilities	466,249	-	466,249
Deposits	1,236,314	1,694,935	2,931,249
Unamortized debt premium	1,337,265	-	1,337,265
Unearned revenue	13,278,913	6,856,447	20,135,360
Loans payable	750,000	-	750,000
Non-current liabilities:			
Long-term debt due within one year	13,268,246	2,814,365	16,082,611
Long-term debt due in more than one year	81,011,200	61,062,606	142,073,806
Estimated claims payable	6,704,460	-	6,704,460
Total liabilities	<u>125,926,847</u>	<u>78,672,048</u>	<u>204,598,895</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	73,737,769	139,779,582	213,517,351
Restricted for capital projects	10,946,407	-	10,946,407
Restricted for specific projects and programs	48,995,034	-	48,995,034
Unrestricted	31,313,366	64,564,941	95,878,307
Total net assets	<u>\$ 164,992,576</u>	<u>\$ 204,344,523</u>	<u>\$ 369,337,099</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**STATEMENT OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
Current:							
Administration	\$ 10,094,067	\$ 1,348,808	\$ -	\$ -	\$ (8,745,259)	\$ -	\$ (8,745,259)
Public safety	42,652,924	7,313,192	1,754,258	-	(33,585,474)	-	(33,585,474)
Public works	18,235,134	5,707,134	6,362,709	647,565	(5,517,726)	-	(5,517,726)
Community services	20,777,933	4,552,320	2,917,393	2,173,155	(11,135,065)	-	(11,135,065)
Community development	16,527,804	4,093,890	2,440,487	-	(9,993,427)	-	(9,993,427)
Debt service:							
Interest	3,506,223	-	-	-	(3,506,223)	-	(3,506,223)
Total governmental activities	<u>111,794,085</u>	<u>23,015,344</u>	<u>13,474,847</u>	<u>2,820,720</u>	<u>(72,483,174)</u>	<u>-</u>	<u>(72,483,174)</u>
<b>Business activities:</b>							
Water	22,841,771	25,153,030	9,159	-	-	2,320,418	2,320,418
Wastewater	9,901,709	10,120,646	-	-	-	218,937	218,937
Airport	12,812,342	12,267,759	-	5,079,509	-	4,534,926	4,534,926
Waterfront	10,920,887	9,624,794	-	83,300	-	(1,212,793)	(1,212,793)
Other non-major funds	6,407,199	6,890,073	-	-	-	482,874	482,874
Total business-type activities	<u>62,883,908</u>	<u>64,056,302</u>	<u>9,159</u>	<u>5,162,809</u>	<u>-</u>	<u>6,344,362</u>	<u>6,344,362</u>
Total	<u>\$ 174,677,993</u>	<u>\$ 87,071,646</u>	<u>\$ 13,484,006</u>	<u>\$ 7,983,529</u>	<u>(72,483,174)</u>	<u>6,344,362</u>	<u>(66,138,812)</u>
<b>General revenues:</b>							
Taxes:							
Sales & use					29,406,958	-	29,406,958
Property					24,142,809	-	24,142,809
Real property transfer					708,746	-	708,746
Transient occupancy					10,365,684	-	10,365,684
Franchise					2,055,864	-	2,055,864
Business license					1,925,833	-	1,925,833
Motor vehicle license-in-lieu					4,569,241	-	4,569,241
Investment income					2,887,992	719,412	3,607,404
Other revenue					1,952,627	15,978	1,968,605
Total general revenues					<u>78,015,754</u>	<u>735,390</u>	<u>78,751,144</u>
Change in net assets					5,532,580	7,079,752	12,612,332
Net assets, beginning of fiscal year					159,459,996	197,264,771	356,724,767
Net assets, end of fiscal year					<u>\$ 164,992,576</u>	<u>\$ 204,344,523</u>	<u>\$ 369,337,099</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004**

	Special Revenue Funds			Capital Projects Fund		Other Governmental Funds	Total Governmental Funds
	General Fund	Redevel- opment Agency	Community Development Block Grant	Redevel- opment Agency	Street Capital Improvements		
<b>Assets</b>							
Cash and investments	\$ 27,593,395	\$ 12,573,489	\$ 244,086	\$ 6,035,700	\$ 4,459,625	\$ 15,258,095	\$ 66,164,390
Cash and investments with fiscal agent	-	-	-	63,592,693	-	1,248,216	64,840,909
Accounts receivable	7,222,895	-	-	-	363,025	651,101	8,237,021
Accrued interest receivable	1,007,718	57,834	-	48,939	-	-	1,114,491
Loans receivable	2,245,786	27,537,794	7,045,865	-	-	3,107,373	39,936,818
Due from fiduciary funds	21,322	-	-	-	-	-	21,322
Due from other agencies	126,403	-	-	150,959	21,716	505,218	804,296
Interfund receivable	1,480,791	281,253	-	-	157,099	-	1,919,143
Advances to other funds	1,735,517	-	-	-	-	-	1,735,517
Assets available for resale	-	433,952	-	-	-	-	433,952
<b>Total assets</b>	<b>\$ 41,433,827</b>	<b>\$ 40,884,322</b>	<b>\$ 7,289,951</b>	<b>\$ 69,828,291</b>	<b>\$ 5,001,465</b>	<b>\$ 20,770,003</b>	<b>\$ 185,207,859</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 749,763	\$ 85,607	\$ 39,746	\$ 364,933	\$ 286,551	\$ 594,890	\$ 2,121,490
Accrued salaries and benefits	4,070,268	-	16,493	-	114,465	-	4,201,226
Other accrued liabilities	-	-	-	-	118,420	347,829	466,249
Interfund payables	281,253	-	-	-	-	1,637,890	1,919,143
Deposits	768,143	214,608	-	-	-	253,564	1,236,315
Deferred revenue	2,697,879	281,253	7,231,365	-	-	3,349,669	13,560,166
Loans payable	-	750,000	-	-	-	-	750,000
<b>Total liabilities</b>	<b>8,567,306</b>	<b>1,331,468</b>	<b>7,287,604</b>	<b>364,933</b>	<b>519,436</b>	<b>6,183,842</b>	<b>24,254,589</b>
<b>Fund balances:</b>							
Reserved	4,720,278	39,552,854	2,347	69,463,358	1,079,164	13,866,581	128,684,582
Unreserved:							
Designated	26,968,482	-	-	-	-	-	26,968,482
Undesignated, reported in:							
General fund	1,177,761	-	-	-	-	-	1,177,761
Capital projects funds	-	-	-	-	3,402,865	629,016	4,031,881
Special revenue funds	-	-	-	-	-	90,564	90,564
<b>Total fund balances</b>	<b>32,866,521</b>	<b>39,552,854</b>	<b>2,347</b>	<b>69,463,358</b>	<b>4,482,029</b>	<b>14,586,161</b>	<b>160,953,270</b>
<b>Total liabilities and fund balances</b>	<b>\$ 41,433,827</b>	<b>\$ 40,884,322</b>	<b>\$ 7,289,951</b>	<b>\$ 69,828,291</b>	<b>\$ 5,001,465</b>	<b>\$ 20,770,003</b>	<b>\$ 185,207,859</b>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS**  
**OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS**  
**June 30, 2004**

Total Governmental fund balances (page 32)	\$ 160,953,270
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities, that are not included in internal service funds, are not financial resources and, therefore, are not reported in the funds.	87,164,802
Costs incurred to refund bonds are an expenditure in the governmental fund but they must be reported as deferred charges in the government-wide financial statements.	305,341
Deferred issuance costs on a bond refunding must be amortized in the statement of activities over the life of the new bond issue.	(20,356)
Governmental long-term liabilities including compensated absences and excluding those liabilities in the City's internal service funds, are not due and payable in the current period and, therefore, are not reported in the funds.	(90,078,376)
Interest on long-term debt is reported as an expenditure of the governmental funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred in the government-wide financial statements.	(974,143)
Government funds report debt costs such as issuance costs, discounts, and losses on advance refunding are reported as an expenditure when those costs are first incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge or premium on debt in the government-wide financial statements.	1,120,195
Internal service funds are used by management to charge the costs of management of fleet maintenance, printing and reproduction, worker's compensation, employee benefits, and personal injury and property damage to individual funds. The assets and liabilities are included in the governmental activities in the statement of net assets.	5,799,992
Certain sales tax receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	440,598
Certain special assessment revenues are earned but unavailable to pay for current period expenditures, and, therefore, are deferred in the funds.	<u>281,253</u>
Net assets of governmental activities (page 30)	<u><u>\$ 164,992,576</u></u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Capital						Total Governmental Funds
	General Fund	Special Revenue Funds		Projects Fund		Other Governmental Funds	
		Redevel- opment Agency	Community Development Block Grant	Redevel- opment Agency	Street Capital Improvements		
<b>Revenues:</b>							
Taxes	\$ 50,172,371	\$ 12,945,066	\$ -	\$ -	\$ 5,498,858	\$ 8,700,758	\$ 77,317,053
Intergovernmental	5,103,830	-	488,870	-	644,889	4,040,074	10,277,663
Fines and forfeitures	2,709,270	-	-	-	402,209	680,320	3,791,799
Use of money and property	780,677	716,272	-	1,675,844	-	124,048	3,296,841
Charges for services	13,947,735	-	-	-	378,451	-	14,326,186
Program income	-	-	746,090	-	-	-	746,090
Other revenues	5,955,606	1,510	-	-	7,130	748,922	6,713,168
<b>Total revenues</b>	<b>78,669,489</b>	<b>13,662,848</b>	<b>1,234,960</b>	<b>1,675,844</b>	<b>6,931,537</b>	<b>14,294,122</b>	<b>116,468,800</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Mayor and council	557,493	-	-	-	-	-	557,493
City attorney	1,598,120	-	-	-	-	-	1,598,120
Administration	1,108,281	-	-	-	-	-	1,108,281
Administrative services	2,117,474	-	-	-	-	-	2,117,474
Finance	4,274,044	-	-	-	-	-	4,274,044
Public safety	41,279,803	-	-	-	-	801,050	42,080,853
Public works	4,534,907	-	-	-	5,765,400	6,932,954	17,233,261
Community services	15,878,527	-	-	-	-	3,001,619	18,880,146
Community development	7,530,433	3,873,190	1,234,960	-	-	869,052	13,507,635
General government	2,266,931	-	-	-	-	-	2,266,931
<b>Capital outlay:</b>							
Capital improvements	-	-	-	1,911,994	4,178,307	1,243,660	7,333,961
<b>Debt service:</b>							
Principle retirement	-	-	-	2,085,000	-	3,329,600	5,414,600
Interest	-	33,842	-	2,032,067	-	1,192,772	3,258,681
Bond issuance costs	-	-	-	941,288	-	-	941,288
<b>Total expenditures</b>	<b>81,146,013</b>	<b>3,907,032</b>	<b>1,234,960</b>	<b>6,970,349</b>	<b>9,943,707</b>	<b>17,370,707</b>	<b>120,572,768</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(2,476,524)</b>	<b>9,755,816</b>	<b>-</b>	<b>(5,294,505)</b>	<b>(3,012,170)</b>	<b>(3,076,585)</b>	<b>(4,103,968)</b>
<b>Other financing sources (uses):</b>							
Proceeds from bond issuance	-	-	-	34,810,000	-	-	34,810,000
Original issue premium	-	-	-	1,133,830	-	-	1,133,830
Payments to refunding agent	-	-	-	(7,545,341)	-	-	(7,545,341)
Transfers in	887,428	-	-	8,188,427	1,699,431	3,612,183	14,387,469
Transfers out	(1,523,673)	(8,259,926)	-	-	-	(4,061,915)	(13,845,514)
<b>Total other financing sources (uses)</b>	<b>(636,245)</b>	<b>(8,259,926)</b>	<b>-</b>	<b>36,586,916</b>	<b>1,699,431</b>	<b>(449,732)</b>	<b>28,940,444</b>
<b>Excess (deficiency) of revenues and other sources over (under) expenditures and other uses</b>	<b>(3,112,769)</b>	<b>1,495,890</b>	<b>-</b>	<b>31,292,411</b>	<b>(1,312,739)</b>	<b>(3,526,317)</b>	<b>24,836,476</b>
<b>Fund balances, beginning of fiscal year</b>	<b>35,979,290</b>	<b>38,056,964</b>	<b>2,347</b>	<b>38,170,947</b>	<b>5,794,768</b>	<b>18,112,478</b>	<b>136,116,794</b>
<b>Fund balances, end of fiscal year</b>	<b>\$ 32,866,521</b>	<b>\$ 39,552,854</b>	<b>\$ 2,347</b>	<b>\$ 69,463,358</b>	<b>\$ 4,482,029</b>	<b>\$ 14,586,161</b>	<b>\$160,953,270</b>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
Fiscal Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities (page 31) are different because:

Net change in fund balances - total governmental funds (page 34)	\$ 24,836,476
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Expenditures for general capital assets, infrastructure, and other related capital	5,098,004
Less current year depreciation	<u>(2,501,890)</u>
	2,596,114
Governmental fund revenues deferred in prior year due to unavailability were received in the current year but already booked in the statement of activities last year.	(83,344)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	
	(34,810,000)
Governmental funds report the effect of issuance costs and discounts/premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:	
Deferred issuance costs	305,341
Amortization of deferred issuance costs	<u>(20,356)</u>
	284,985
Repayment of debt principal and defeasance of debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	7,240,000
Repayment of debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,414,600
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
	(255,378)
Amortization of deferred debt costs in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
Governmental funds report interest on long-term debt as expenditures when paid, whereas these amounts are deferred and reported in the period when the liability exists in the statement of activities	(164,350)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue of certain activities of internal service funds is reported as governmental activities.	657,288
Governmental liabilities for compensated absences are not due until payable in the governmental funds, therefore, the changes in the liability are not reported as expenditures in the governmental funds.	(173,407)
Certain sales tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,404)
Adjusted change in net assets of governmental activities (page 31)	<u><u>\$ 5,532,580</u></u>

See accompanying notes to the basic financial statements

**CITY OF SANTA BARBARA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2004  
(continued on next page)**

<u>Assets</u>	Water	Wastewater	Airport
<b>Current assets:</b>			
Cash and investments	\$ 15,761,606	\$ 13,229,837	\$ 16,658,287
Accounts receivable, net	3,008,841	910,299	17,614
Due from other agencies	-	-	709,192
Inventory	-	-	-
Prepaid assets	5,363,053	-	-
Total current assets	<u>24,133,500</u>	<u>14,140,136</u>	<u>17,385,093</u>
<b>Non-current assets:</b>			
Restricted assets:			
Cash with fiscal agent	1,889,229	326	-
Unamortized issuance costs, net	425,121	-	-
Deferred charge-loss on defeasance, net	1,138,086	-	-
Loans receivable	6,338,385	-	-
Total other assets	<u>9,790,821</u>	<u>326</u>	<u>-</u>
Capital Assets:			
Land	2,218,187	3,508,672	7,310,000
Buildings	6,397,658	14,416,883	3,964,543
Building improvements	1,433,780	453,788	1,564,408
Improvements other than building	80,423,047	25,370,052	35,399,889
Equipment	6,671,364	8,446,914	2,139,783
Underground piping	45,534,685	25,185,723	-
Construction in progress	30,308,730	4,410,718	4,270,984
Less: accumulated depreciation	(69,334,807)	(42,744,867)	(30,070,878)
Total capital assets, net	<u>103,652,644</u>	<u>39,047,883</u>	<u>24,578,729</u>
<b>Total assets</b>	<u>137,576,965</u>	<u>53,188,345</u>	<u>41,963,822</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	1,477,120	1,515,635	1,215,930
Accrued interest payable	345,469	-	-
Accrued salaries and benefits payable	242,064	176,974	171,156
Deposits	122,373	-	868,475
Deferred revenue	6,338,385	-	283,499
Current portion compensated absences liability	386,779	106,693	169,017
Current portion claims liability	-	-	-
Current portion long term debt	1,220,017	-	-
Total current liabilities	<u>10,132,207</u>	<u>1,799,302</u>	<u>2,708,077</u>
<b>Non-current liabilities:</b>			
Long-term debt, net of current portion	41,553,806	-	-
Advances from other funds	-	-	-
Estimated claims liability, net of current portion	-	-	-
Total noncurrent liabilities	<u>41,553,806</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>51,686,013</u>	<u>1,799,302</u>	<u>2,708,077</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	64,331,258	38,598,209	24,578,729
Unrestricted	21,559,694	12,790,834	14,677,016
<b>Total net assets</b>	<u>\$ 85,890,952</u>	<u>\$ 51,389,043</u>	<u>\$ 39,255,745</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2004**  
(continued from previous page)

	Waterfront	Nonmajor Proprietary Funds	Total Business-Type Funds	Governmental Activities - Internal Service Funds
<b>Assets</b>				
<b>Current assets:</b>				
Cash and investments	\$ 9,843,956	\$ 9,019,572	\$ 64,513,258	\$ 11,562,651
Accounts receivable, net	32,263	6,196	3,975,213	1,039
Due from other agencies	-	10,277	719,469	28,132
Inventory	-	-	-	882,077
Prepaid assets	-	-	5,363,053	75,713
Total current assets	<u>9,876,219</u>	<u>9,036,045</u>	<u>74,570,993</u>	<u>12,549,612</u>
<b>Non-current assets:</b>				
Restricted assets:				
Cash with fiscal agent	1,393,380	-	3,282,935	-
Unamortized issuance costs, net	651,361	-	1,076,482	-
Deferred charge-loss on defeasance, net	957,684	149,294	2,245,064	-
Loans receivable	-	-	6,338,385	-
Total other assets	<u>3,002,425</u>	<u>149,294</u>	<u>12,942,866</u>	<u>-</u>
Capital Assets:				
Land	878,201	5,286,073	19,201,133	-
Buildings	3,690,671	4,220,123	32,689,878	105,889
Building improvements	40,063	90,749	3,582,788	-
Improvements other than building	41,310,874	6,879,894	189,383,756	-
Equipment	824,875	1,284,485	19,367,421	15,965,032
Underground piping	-	-	70,720,408	-
Construction in progress	1,191,469	64,253	40,246,154	-
Less: accumulated depreciation	(28,857,722)	(7,247,083)	(178,255,357)	(11,035,622)
Total capital assets, net	<u>19,078,431</u>	<u>10,578,494</u>	<u>196,936,181</u>	<u>5,035,299</u>
<b>Total assets</b>	<u>31,957,075</u>	<u>19,763,833</u>	<u>284,450,040</u>	<u>17,584,911</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	373,623	115,656	4,697,964	320,264
Accrued interest payable	220,927	-	566,396	-
Accrued salaries and benefits payable	205,814	183,327	979,335	257,077
Deposits	677,845	26,242	1,694,935	-
Deferred revenue	234,563	-	6,856,447	-
Current portion compensated absences liability	200,555	125,804	988,848	263,530
Current portion claims liability	-	-	-	3,937,540
Current portion long term debt	495,000	110,500	1,825,517	-
Total current liabilities	<u>2,408,327</u>	<u>561,529</u>	<u>17,609,442</u>	<u>4,778,411</u>
<b>Non-current liabilities:</b>				
Long-term debt, net of current portion	17,700,000	1,808,800	61,062,606	-
Advances from other funds	1,735,517	-	1,735,517	-
Estimated claims liability, net of current portion	-	-	-	6,704,460
Total noncurrent liabilities	<u>19,435,517</u>	<u>1,808,800</u>	<u>62,798,123</u>	<u>6,704,460</u>
<b>Total liabilities</b>	<u>21,843,844</u>	<u>2,370,329</u>	<u>80,407,565</u>	<u>11,482,871</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	3,462,899	8,808,488	139,779,583	5,035,299
Unrestricted	6,650,332	8,585,016	64,262,892	1,066,741
<b>Total net assets</b>	<u>\$ 10,113,231</u>	<u>\$ 17,393,504</u>	<u>204,042,475</u>	<u>\$ 6,102,040</u>
Adjustment to reflect the consolidation of internal service activities related to enterprise funds			302,048	
Net assets of business-type activities			<u>\$ 204,344,523</u>	

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**  
(continued on next page)

	<u>Water</u>	<u>Wastewater</u>	<u>Airport</u>
<b>Operating Revenues:</b>			
<b>Charges for sales and services</b>			
Sales	\$ 23,127,138	\$ 9,643,385	\$ -
Service charges	1,953,380	454,929	1,269,037
Leases and rents	-	-	10,672,355
Other revenues	72,512	22,332	326,367
Total operating revenues	<u>25,153,030</u>	<u>10,120,646</u>	<u>12,267,759</u>
<b>Operating Expenses:</b>			
Salaries, wages and benefits	4,944,183	3,607,650	3,429,895
Materials, supplies and services	13,220,033	4,293,985	7,359,884
Depreciation	3,549,112	2,173,535	2,272,114
Other expenses	29,970	18,888	-
Total operating expenses	<u>21,743,298</u>	<u>10,094,058</u>	<u>13,061,893</u>
Operating income (loss)	<u>3,409,732</u>	<u>26,588</u>	<u>(794,134)</u>
<b>Non-operating Revenues (Expenses):</b>			
Taxes	-	-	-
Investment income	252,980	111,057	119,167
Interest expense	(1,513,884)	-	-
Grants and contributions	9,159	-	5,079,509
Other, net	15,978	(500)	-
Total non-operating revenues (expenses)	<u>(1,235,767)</u>	<u>110,557</u>	<u>5,198,676</u>
Income (loss) before transfers	2,173,965	137,145	4,404,542
Transfers in	-	-	-
Change in net assets	2,173,965	137,145	4,404,542
Net assets, beginning of year	<u>83,716,987</u>	<u>51,251,898</u>	<u>34,851,203</u>
Net assets, end of year	<u>\$ 85,890,952</u>	<u>\$ 51,389,043</u>	<u>\$ 39,255,745</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**  
**(continued from previous page)**

	<u>Waterfront</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>Operating Revenues:</b>				
<b>Charges for sales and services</b>				
Sales	\$ -	\$ -	\$ 32,770,523	\$ -
Service charges	6,012,632	5,835,804	15,525,782	16,021,706
Leases and rents	3,495,038	275,720	14,443,113	-
Other revenues	117,124	14,104	552,439	1,585,916
Total operating revenues	<u>9,624,794</u>	<u>6,125,628</u>	<u>63,291,857</u>	<u>17,607,622</u>
<b>Operating Expenses:</b>				
Salaries, wages and benefits	4,093,446	3,626,217	19,701,391	5,348,578
Materials, supplies and services	4,073,429	2,282,103	31,229,434	9,249,260
Depreciation	1,993,315	577,621	10,565,697	1,358,775
Other expenses	-	-	48,858	15,783
Total operating expenses	<u>10,160,190</u>	<u>6,485,941</u>	<u>61,545,380</u>	<u>15,972,396</u>
Operating income (loss)	<u>(535,396)</u>	<u>(360,313)</u>	<u>1,746,477</u>	<u>1,635,226</u>
<b>Non-operating Revenues (Expenses):</b>				
Taxes	-	764,445	764,445	-
Investment income	165,473	70,735	719,412	47,901
Interest expense	(935,278)	(45,173)	(2,494,335)	-
Grants and contributions	83,300	-	5,171,968	-
Other, net	(19,532)	-	(4,054)	-
Total non-operating revenues (expenses)	<u>(706,037)</u>	<u>790,007</u>	<u>4,157,436</u>	<u>47,901</u>
Income (loss) before transfers	(1,241,433)	429,694	5,903,913	1,683,127
Transfers in	-	-	-	150,000
Change in net assets	(1,241,433)	429,694	5,903,913	1,833,127
Net assets, beginning of year	<u>11,354,664</u>	<u>16,963,810</u>	<u>198,138,562</u>	<u>4,268,913</u>
Net assets, end of year	<u>\$ 10,113,231</u>	<u>\$ 17,393,504</u>		<u>\$ 6,102,040</u>
Adjustment to reflect the consolidation of internal service activities related to enterprise funds			<u>302,048</u>	
Change in net assets of business-type activities			<u>\$ 204,344,523</u>	

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**  
**(continued on next page)**

	<u>Water</u>	<u>Wastewater</u>	<u>Airport</u>
<b>Cash flows from operating activities:</b>			
Cash received from services	\$ 24,702,201	\$ 10,048,068	\$ 1,275,278
Cash received from rents and leases	-	-	10,713,324
Cash payments for goods and services	(14,151,039)	(3,095,300)	(6,694,501)
Cash payments to employees for services	(4,797,365)	(3,480,390)	(3,304,989)
Cash returned for deposits	21,311	-	437,604
Other operating receipts	72,512	22,332	(113,020)
Other operating disbursements	(29,970)	(18,888)	-
Net cash provided (used) by operating activities	<u>5,817,650</u>	<u>3,475,822</u>	<u>2,313,696</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers to other funds	-	-	-
Received from (paid to) other agencies	25,137	(500)	-
Cash received from taxes and assessments	-	-	-
Net cash provided (used) by non-capital financing activities	<u>25,137</u>	<u>(500)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from capital debt	13,817,127	-	-
Proceeds from capital grants and contributions	-	-	5,079,509
Payments on long term debt	(1,182,089)	(450,000)	-
Proceeds from capital asset transfer	-	-	-
Acquisition of capital assets	(16,407,510)	(3,588,622)	(4,627,787)
Interest paid on debt	(1,438,563)	(9,000)	-
Net cash used for capital and related financing activities	<u>(5,211,035)</u>	<u>(4,047,622)</u>	<u>451,722</u>
<b>Cash flows from investing activities:</b>			
Cash received on investments	<u>254,031</u>	<u>503,688</u>	<u>119,167</u>
Net increase (decrease) in cash and cash equivalents	885,783	(68,612)	2,884,585
Cash and cash equivalents, beginning of fiscal year	<u>16,765,052</u>	<u>13,298,775</u>	<u>13,773,702</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 17,650,835</u>	<u>\$ 13,230,163</u>	<u>\$ 16,658,287</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 3,409,732	\$ 26,589	\$ (794,134)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	3,549,112	2,173,534	2,272,114
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(378,317)	(50,246)	6,241
(Increase) decrease in inventories	-	-	-
(Increase) decrease in prepaid assets	(434,003)	-	-
(Increase) decrease in due from other agencies	-	-	(439,387)
Increase (decrease) in accounts payable	(497,003)	1,198,685	665,383
Increase (decrease) in accrued salaries payable	117,402	136,667	101,295
Increase (decrease) in deferred revenue	-	-	40,969
Increase (decrease) in accrued compensated absences	29,416	(9,407)	23,611
Increase (decrease) in deposits	21,311	-	437,604
Net cash provided (used) by operating activities	<u>\$ 5,817,650</u>	<u>\$ 3,475,822</u>	<u>\$ 2,313,696</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**  
**(continued from previous page)**

	Waterfront	Nonmajor Proprietary Funds	Total Proprietary Funds	Governmental Activities Internal Service Funds
<b>Cash flows from operating activities:</b>				
Cash received from services	\$ -	\$ 1,768,565	\$ 37,794,112	\$ 16,040,259
Cash received from rents and leases	9,629,132	4,344,742	24,687,198	-
Cash payments for goods and services	(3,786,032)	(2,250,975)	(29,977,847)	(7,771,184)
Cash payments to employees for services	(3,963,128)	(3,530,085)	(19,075,957)	(5,041,687)
Cash returned for deposits	(34,537)	1,194	425,572	-
Other operating receipts	117,124	17,528	116,476	1,585,916
Other operating disbursements	-	-	(48,858)	(14,455)
Net cash provided (used) by operating activities	<u>1,962,559</u>	<u>350,969</u>	<u>13,920,696</u>	<u>4,798,849</u>
<b>Cash flows from noncapital financing activities:</b>				
Transfers to other funds	-	-	-	150,000
Received from (paid to) other agencies	63,768	-	88,405	9,374
Cash received from taxes and assessments	-	764,445	764,445	-
Net cash provided (used) by non-capital financing activities	<u>63,768</u>	<u>764,445</u>	<u>852,850</u>	<u>159,374</u>
<b>Cash flows from capital and related financing activities:</b>				
Proceeds from capital debt	-	-	13,817,127	-
Proceeds from capital grants and contributions	-	-	5,079,509	-
Payments on long term debt	(590,000)	(105,400)	(2,327,489)	-
Proceeds from capital asset transfer	-	-	-	(821,090)
Acquisition of capital assets	(1,018,987)	(71,555)	(25,714,461)	(700,293)
Interest paid on debt	(871,889)	(67,509)	(2,386,961)	-
Net cash used for capital and related financing activities	<u>(2,480,876)</u>	<u>(244,464)</u>	<u>(11,532,275)</u>	<u>(1,521,383)</u>
<b>Cash flows from investing activities:</b>				
Cash received on investments	165,473	70,735	1,113,094	47,901
Net increase (decrease) in cash and cash equivalents	(289,076)	941,685	4,354,365	3,484,741
Cash and cash equivalents, beginning of fiscal year	11,526,412	8,077,887	63,441,828	8,077,910
Cash and cash equivalents, end of fiscal year	<u>\$ 11,237,336</u>	<u>\$ 9,019,572</u>	<u>\$ 67,796,193</u>	<u>\$ 11,562,651</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (535,396)	\$ (360,313)	\$ 1,746,478	\$ 1,635,226
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,993,315	577,621	10,565,696	1,358,775
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	10,921	1,783	(409,618)	18,553
(Increase) decrease in inventories	-	-	-	81,718
(Increase) decrease in prepaid assets	-	-	(434,003)	1,420,509
(Increase) decrease in due from other agencies	-	3,425	(435,962)	-
Increase (decrease) in accounts payable	287,397	31,127	1,685,589	(22,823)
Increase (decrease) in accrued salaries payable	120,455	93,579	569,398	199,371
Increase (decrease) in deferred revenue	110,541	-	151,510	-
Increase (decrease) in accrued compensated absence	9,863	2,553	56,036	107,520
Increase (decrease) in deposits	(34,537)	1,194	425,572	-
Net cash provided (used) by operating activities	<u>\$ 1,962,559</u>	<u>\$ 350,969</u>	<u>\$ 13,920,696</u>	<u>\$ 4,798,849</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA  
COMBINING STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2004**

	Pension Trust Funds	Private Purpose Trust Funds	Agency Funds
<b><u>Assets</u></b>			
<b>Current assets:</b>			
Cash and investments	\$ 237,314	\$ 779,778	\$ 1,963,788
Accounts receivable, net	-	1,538	1,039,881
Loans receivable	-	-	2,314,102
Total current assets	<u>237,314</u>	<u>781,316</u>	<u>5,317,771</u>
<b>Capital assets:</b>			
Equipment	-	-	878,164
Less: accumulated depreciation	-	-	(794,164)
Capital assets, net	<u>-</u>	<u>-</u>	<u>84,000</u>
<b>Other assets:</b>			
Due from other agencies	8,288	-	-
Cash and investments held by fiscal agents:			
Cash and cash equivalents	81,664	-	92,198
Other investments	779,257	-	-
Total other assets	<u>869,209</u>	<u>-</u>	<u>92,198</u>
<b>Total assets</b>	<u>1,106,523</u>	<u>781,316</u>	<u>5,493,969</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	-	421	2,686
Accrued benefits payable	9,892	-	-
Due to General Fund	-	-	21,322
Total current liabilities	<u>9,892</u>	<u>421</u>	<u>24,008</u>
<b>Noncurrent liabilities:</b>			
Trust liabilities	-	-	2,400,946
Contributions	-	-	3,069,015
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>5,469,961</u>
<b>Total liabilities</b>	<u>9,892</u>	<u>421</u>	<u>5,493,969</u>
<b><u>Net Assets</u></b>			
Held in trust for pension benefits and other purposes:			
Employees' pension benefit	1,096,631	-	-
Police	-	67,000	-
Library	-	712,357	-
Parks and recreation	-	1,538	-
<b>Total net assets</b>	<u>\$ 1,096,631</u>	<u>\$ 780,895</u>	<u>\$ -</u>

See accompanying notes to basic financial statements

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NETS ASSETS**  
**FIDUCIARY FUNDS**  
**Fiscal Year Ended June 30, 2004**

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Contributions:		
Private donations	\$ -	\$ 109,059
Investment earnings:		
Interest	35,321	19,400
Dividends	14,226	-
Net change in fair value of investments	17,926	-
Other	9,629	-
Total investment earnings	<u>77,102</u>	<u>19,400</u>
Less investment expense	<u>12,660</u>	<u>-</u>
Net investment income	<u>64,442</u>	<u>19,400</u>
Total additions	<u>64,442</u>	<u>128,459</u>
<b>Deductions</b>		
Benefits	348,394	-
Community services	-	69,468
Operating transfers out	-	691,954
Total deductions	<u>348,394</u>	<u>761,422</u>
Net decrease	(283,952)	(632,963)
Net assets, beginning of fiscal year	<u>1,380,583</u>	<u>1,413,858</u>
Net assets, end of fiscal year	<u>\$ 1,096,631</u>	<u>\$ 780,895</u>

See accompanying notes to basic financial statements

Notes To The  
Basic Financial Statements

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Santa Barbara (City) conform to generally accepted accounting principles. The following summary of the City's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

**A. Description of the Financial Reporting Entity**

The City's reporting entity includes the City (the primary government) and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," which the City adopted effective July 1, 1993. The basic, but not the only, criterion for including a potential component unit within the City's reporting entity is whether the City Council, as the City's governing body, has financial accountability for the potential component unit. The most significant manifestations of financial accountability include the ability of the Council to appoint a voting majority of the organization's governing body and the ability to impose its will on the organization; or that there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be deemed to be financially accountable if an organization is fiscally dependent on the City regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board. In addition to those organizations for which the City may be financially accountable, other organizations for which the City is not financially accountable, but for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete, may also be component units. Component units are presented on a "blended" basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Based upon the application of these criteria, the following is a brief review of the City and each component unit within the City's reporting entity.

City of Santa Barbara

The City of Santa Barbara (the primary government) was incorporated on August 26, 1850. The City is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The current City Charter was adopted on May 2, 1967 and provides for the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning and general administration. Enterprise and Fiduciary funds, operated in a manner similar to a private business, include water, wastewater, airport, parking, golf and waterfront.

Redevelopment Agency of the City of Santa Barbara

The Redevelopment Agency of the City of Santa Barbara (Agency), a blended component unit of the City, was established in 1968 and is a separate governmental entity as prescribed in the State of California's Community Redevelopment law as set forth in the State's Health and Safety Code.

The liabilities of the Agency are mutually exclusive from those of the City. The inclusion of the Agency's operations in the accompanying basic financial statements does not express or imply any assumption of liability by the City, either now or in the future. The City Council of the City of Santa Barbara and the Board of Directors of the Agency are legally separate boards; however, they share common membership. The Agency Board consists of members of the City Council. The City also provides all support staff and performs all administrative functions for the Agency under the terms of a written agreement between the two entities. Accordingly, although it is legally separate from the City, the Agency is reported as if it were part of the City because its sole purpose is to provide for redevelopment activities within the City and it has the same governing body. Separate component unit financial statements for the Agency may be obtained from the City's Finance Department at 735 Anacapa Street, Santa Barbara, CA 93102.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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California Community Redevelopment law provides that, upon adoption of a redevelopment plan for a specific area, future incremental tax revenues attributable to increases in the tax base within the project area shall be paid to finance the project. Accordingly, for purposes of its comprehensive annual financial report, the City records the Agency's operating fund as a special revenue fund.

Santa Barbara Public Facilities Corporation

The Santa Barbara Public Facilities Corporation ("Corporation") was incorporated in 1986 and organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was created solely for the purpose of providing financial assistance to the City by acquiring, constructing, improving, developing and installing certain real and personal property for the use, benefit and enjoyment of the City. The activities of the Corporation are included within the Water Enterprise Fund of the City.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds.

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets (i.e., fund balances) as presented in these statements to the net assets presented in the Government-wide financial statements.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets, and a Statement of Cash Flows for each proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, a portion of the internal service balances and activities have been combined with the governmental activities in the Government-wide financial statements.

The following are the major governmental funds of the City:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Redevelopment Agency Special Revenue Fund*, a blended component unit of the City, accounts for all financial activities of the Agency, except for those required for debt service and housing activity.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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- The *Community Development Block Grant Special Revenue Fund* accounts for the financial resources provided by the federal government for housing and rental needs, housing rehabilitation loans and grants, as well as low and moderate income housing programs.
- The *Redevelopment Agency Capital Projects Fund* accounts for all capital projects, including some related debt, financed by the Agency.

The following are the major proprietary funds of the City:

- The *Water Fund* accounts for the provisions of water services to the residents of the City and some residents of the County.
- The *Wastewater Fund* accounts for the provision of sewer services to the residents of the City and some residents of the County.
- The *Airport Fund* accounts for the operation of the municipal airport and the administration of leases of airport property.
- The *Waterfront Fund* accounts for the operation of the City managed waterfront that includes a public wharf, a small craft harbor, and parking facilities.

Additionally, the City reports the following fund types:

- *Internal Service Funds* account for 1) a maintenance facility for fleet and motor pool equipment used by all City departments and City-wide building maintenance operations, 2) duplicating and printing services, and 3) self-insurance operations of workers' compensation, unemployment, liability and employee health insurance coverage.
- *Private Purpose Trust Funds* are used to account for resources legally held in trust for use by a not-for-profit organization devoted to library book replacement and promoting junior golf. All resources of the funds, including any earnings on invested resources, may be used to support the organization's activities. There is no requirement that any portion of these resources be preserved as capital.
- The *Pension Trust Fund* accounts for the activities of the Safety Retirement Fund and the Service Retirement Fund that accumulates resources for pension benefit payments to qualified safety employees.
- *Agency Funds* are used to report resources held by the City in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds' and fiduciary funds' financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the granting agency have been met.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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Property and sales taxes, utility users taxes, transient occupancy taxes, franchise taxes, licenses and other charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as "other financing sources."

For its *business-type activities* and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

**D. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the Primary Government. Year-end encumbrances are re-appropriated in the following year and expended as the related liability is incurred. Outstanding encumbrances at year-end are recorded as reservations of fund balance.

**E. Capital Assets**

Capital assets which include land, buildings, improvements to buildings, improvements other than buildings, equipment, construction in progress, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide basic financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year and an initial individual cost of \$10,000 or more for equipment, \$25,000 or more for building improvements and other improvements, \$50,000 or more for buildings and \$100,000 or more for infrastructure. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets life are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2004.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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Capital assets (except land, works of art and construction in progress) of the primary government, as well as the component unit of the Redevelopment Agency, are depreciated using the straight-line method using the estimated useful lives listed below.

	<u>Years</u>
Buildings	40-50
Building Improvements	40-50
Improvements other than Buildings	25-50
Equipment	5-20
Infrastructure (except for the maintained pavement subsystem)	10-100

The City has networks of infrastructure assets such as roads, water and wastewater treatment plants, drainage systems and sidewalks. The streets pavement subsystem of the road network is reported using the modified approach. The City has established a pavement condition assessment process. Approximately one-third of the entire sub-system is assessed on a rotating basis each year. The City's streets pavement subsystem has been classified as roads with or without formal structural sections. Each road segment is rated and given a Pavement Condition Index (PCI) value from zero to one hundred (0-100), where PCI's of 40 or higher are assigned to be in "Fair" or better condition, and roads with PCI's of 55 or higher to be in "Good" or better condition. Accordingly, depreciation is not reported for this subsystem and all costs, except for betterments and major improvements made to the subsystem, are expensed rather than capitalized. There were no capitalizable additions to the streets pavement subsystem during fiscal year 2004.

The City was required to report all infrastructure asset additions effective July 1, 2001. Only the prospective provisions were implemented for infrastructure assets. The retroactive reporting is subject to an extended implementation period and final implementation is required by fiscal year ending June 30, 2006.

**F. Assets Available for Resale**

Assets available for resale within the City's Redevelopment Agency are recorded in the Agency's fund at the lower of cost or realizable value. Realizable value is determined by an agreed-upon sale price with a developer. Capitalized costs include all moneys expended in the redevelopment process that can be properly attributed to properties to be resold to developers.

**G. Description of Program Revenue**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes except special assessments, which are program revenues.

**H. Definition of Operating and Non-operating Revenues**

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The principal operating revenues of the water, wastewater, parking, golf, airport and waterfront enterprise funds and the City's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue service charges, leases and rents, and miscellaneous revenue. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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**I. Cash and Cash Equivalents**

The cash flow statements require presentation of “cash and cash equivalents.” For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as “cash and cash equivalents,” as such funds are available to the various funds as needed. With respect to cash and investments with fiscal agents, the City considers all investments with an original maturity of less than three months to be cash equivalents.

**J. Restricted Assets**

The City has funds held by trustees or fiscal agents pledged to the payment or security of bonds and certificates of participation and are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agents may make.

**K. Flow Assumption for Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the City’s policy for all fund types to use restricted resources first, and then unrestricted resources as they are needed.

**L. Budgetary Principles**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Annual budgets are also adopted for the enterprise and internal service funds, although they are not legally required. Effective fiscal control for debt service is achieved through bond indenture provisions. While budgets are prepared for the City’s capital projects funds, capital projects generally span more than one year and are effectively controlled at the project level.

In early January of each year, departments submit their proposed budgets to the City Administrator. These proposals are reviewed and considered, and adjusted as necessary based on funding limitations and priorities. In early April, the City Administrator presents a recommended budget to the City Council. From April through late June, public hearings are held and the recommended budget is reviewed in detail with the Council Finance Committee and City Council. The budget is adopted by June 30.

There were no violations of the budget in fiscal year 2004.

**M. Investment Policies**

Effective July 1, 1997, the City adopted the provisions of GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires that governmental entities, including governmental external investment pools, report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

The fair value of pooled investments is determined annually and is based on current market prices received from the City’s securities custodian. The Local Agency Investment Fund (LAIF) is required to invest in accordance with State statutes. At June 30, 2004, the fair value of the City’s position in LAIF is the same as the value of the pool shares. Investments held in the Pension Trust Funds are stated at fair value. Short-term investments are reported at cost, which approximates fair value.

The City has developed a formal investment policy that is more restrictive than the State of California Government Code. The policy is adopted annually by the City Council. The City has adhered to established policies for all investment activities.

All of the City’s deposits, except certain cash balances held by fiscal agents, are entirely insured or collateralized. The California Government Code requires California banks and savings and loans to secure the City’s deposits by pledging government securities as collateral. The fair value of the pledged securities must equal 110% of the City’s deposits.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes equal to 150% of the City's deposits. The City may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

**N. Receivables and Payables (Inter-fund Transactions)**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not currently available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**O. Property Tax Calendar**

In 1978, a State constitutional amendment (Article XIII A) provided that the ad valorem real property tax rate be limited to 1% of market value and be levied only by the county and shared with all other jurisdictions. The County of Santa Barbara collects the property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdictions' assessed valuations, subject to adjustments for voter-approved debt. Property taxes are formally due on November 1 and February 1 and become delinquent as of December 10 and April 10 respectively. Taxes become a lien on the property effective March 1 of the preceding year.

**P. Inventories and Prepaid Assets**

Inventories are stated at cost (first-in, first-out basis) for governmental funds and lower of average cost or market for proprietary funds. Governmental fund inventories are recorded as expenses when consumed rather than when purchased. Proprietary fund inventories consist primarily of materials and supplies held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Q. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. For fire safety employees the value of the sick pay benefit is converted to additional years of service for purposes of calculating retirement benefits provided by the Public Employees Retirement System (PERS) and the employee is, therefore, compensated through an increased retirement benefit. All other employees upon retirement and with a minimum of 500 hours of accumulated sick pay benefits may elect to have an annuity or the cash value of an annuity for the value of those accumulated hours, calculated based on comparable actuarial assumptions used by PERS.

Governmental funds recognize the cost of vacation benefits when payments are made to employees. As shown below, all of the liability for compensated absences in both the governmental activities and the business-type activities at June 30, 2004, is current and expected to be paid with current financial resources. In prior years, compensated absences have been liquidated primarily by the General Fund and the proprietary funds. The total amount outstanding at June 30, 2004, was \$4,581,206 and \$988,848 for governmental and business-type activities, respectively.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

	<u>Balance</u> <u>June 30, 2003</u>	<u>Incurred</u>	<u>Satisfied</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$ 4,300,093</u>	<u>\$ 5,581,000</u>	<u>\$ 5,299,887</u>	<u>\$ 4,581,206</u>	<u>\$ 4,581,206</u>
Business-Type Activities:					
Compensated Absences	<u>\$ 932,812</u>	<u>\$ 1,205,732</u>	<u>\$ 1,149,696</u>	<u>\$ 988,848</u>	<u>\$ 988,848</u>

**R. Long-term Obligations and Refunding of Debt**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and gains and losses on defeasance, are deferred and amortized over the life of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and gains and losses on defeasance, during the current period. The proceeds of long-term debt issued are reported as “other financing sources,” net of issuance costs. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Effective July 1, 1993, the City implemented GASB Statement No. 23, “Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities.” Consequently, amounts which previously would have been reported as an accounting “loss on defeasance of debt” are now deferred and amortized as a component of interest expense over the remaining life of the new debt.

**S. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**T. Allocated Costs Policy**

Expenses reported for functional activities include allocated indirect expenses pursuant to a cost allocation plan prepared in accordance with OMB Circular A-87.

**NOTE 2. DEPOSITS AND INVESTMENTS**

The City follows the practice of pooling cash and investments for all funds under its direct daily control. Funds held by outside fiscal agents under provisions of bond indentures are maintained separately.

Interest earned on pooled cash and investments is allocated monthly to the various funds based on the respective fund’s average monthly cash balance. Interest income from cash and investments with fiscal agents is credited directly to the related funds.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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Cash investments at June 30, 2004 consisted of the following:

Pooled cash and investments		
Deposits		
Demand deposits	\$ 4,767,252	
Certificates of deposit	1,600,000	
Total deposits	6,367,252	
Investments		138,448,939
Total	144,816,191	
Other (non-pooled) cash and investments		
Demand deposits	335,869	
Investments	69,120	
Total	404,989	
Investments with fiscal agent		68,297,706
Pension plan investments (non-pooled portion)		779,256
Total cash and investments	\$ 214,298,142	
Cash and Investments at June 30, 2004 by Activity:		
Governmental Activities	142,567,950	
Business-Type Activities	67,796,193	
Fiduciary Funds	3,933,999	
Total	\$ 214,298,142	

In accordance with GASB Statement No. 3, deposits and investments, including repurchase agreements, are categorized separately to give an indication of the level of custodial risk assumed by the City. The City's deposits and investments are categorized in the following manner:

Category 1

Includes deposits that are insured or collateralized with securities held by the City or by its agent in the City's name, and investments that are secured or registered or for which the securities are held by the City or its agent in the City's name.

Category 2

Includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3

Includes deposits that are uncollateralized, and uninsured and unregistered investments for which the securities are held by the counterparty or the counterparty's trust department or agent but not in the City's name.

**A. Deposits**

At year-end, the City's carrying amount of deposits was \$6,703,121 and the bank balance was \$7,839,035. Of the bank balance 100% was covered by federal depository insurance or by collateral held by the City's agent in the City's name. The California Government Code requires California banks and savings and loans to secure the City's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal 110% of the City's

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes equal to 150% of the City's deposits. The City may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

	Category			Carrying Amount at Fair Value
	1	2	3	
<u>Pooled Deposits</u>				
Demand Deposits, Bank	\$ 4,767,252	\$ -	\$ -	\$ 4,767,252
Certificates of Deposit	100,000	1,500,000	-	1,600,000
	<u>4,867,252</u>	<u>1,500,000</u>	<u>-</u>	<u>6,367,252</u>
<u>Other Deposits</u>				
Demand Deposits	-	335,869	-	335,869
Total Deposits	<u>\$ 4,867,252</u>	<u>\$ 1,835,869</u>	<u>\$ -</u>	<u>\$ 6,703,121</u>

**B. Investments**

California statutes and the City's investment policy govern the City's investments. The City is authorized by its investment policy, in accordance with Section 53600 of the California Government Code, to invest in the following instruments:

- Municipal Securities
- Securities issued by the Federal Government or its agencies
- Medium term notes of a maximum of five years maturity issued by corporations or depository institutions organized and operating within the United States
- Repurchase and reverse repurchase agreements of any securities authorized by the investment code subject to specific authorization by City Council
- Bankers' acceptances eligible for purchase by the Federal Reserve System
- Commercial paper, rated A-1/P-1
- Negotiable certificates of deposit issued by a nationally chartered bank, savings association, or credit union
- Certificates of deposit issued by commercial banks and savings and loan associations that are collateralized in accordance with the California Government Code
- State of California Local Agency Investment Fund
- U.S. Government money market funds
- Demand deposit accounts

Also, in accordance with the various plan documents, the City's single-employer pension fund may also invest funds in money market funds, mutual funds, and debt and equity securities. The Police and Fire Pension Commission approve investments of the pension plans.

The City's investment policy also establishes a maximum term of five years, unless specifically approved by City Council, at the time an investment is purchased. The average maturity of the portfolio cannot exceed 2.5 years. The City's investments comply with the established policy.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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As of June 30, 2004, the City's investment balances were as follows:

	Category			Not Required To Be Categorized	Carrying Amount at Fair Value
	1	2	3		
<u>Pooled Investments:</u>					
State of California LAIF	\$ -	\$ -	\$ -	\$ 19,468,492	\$ 19,468,492
State of California LAIF RDA	-	-	-	16,972,531	16,972,531
Money Market Mutual Funds	-	-	-	237,081	237,081
Corporate Notes	2,026,513	-	-	-	2,026,513
U.S. Government Securities	99,744,322	-	-	-	99,744,322
	<u>101,770,835</u>	<u>-</u>	<u>-</u>	<u>36,678,104</u>	<u>138,448,939</u>
<u>Non-Pooled Investments:</u>					
Money Market Mutual Funds	-	-	-	69,120	69,120
<u>Investments With Fiscal Agents</u>					
City Cash and Cash Equivalents	-	-	131,080	-	131,080
RDA Cash and Cash Equivalents	-	-	706,487	-	706,487
Pension Plan Cash and Cash Equivalents	-	-	81,664	-	81,664
City Guaranteed Investment Contracts	-	-	3,805,201	-	3,805,201
RDA Guaranteed Investment Contracts	-	-	63,573,274	-	63,573,274
	<u>-</u>	<u>-</u>	<u>68,297,706</u>	<u>-</u>	<u>68,297,706</u>
<u>Pension Plan (Non-Pooled Portion)</u>					
Cash and Cash Equivalents	-	-	66,982	-	66,982
Guaranteed Investment Contracts	-	-	240,126	-	240,126
Stocks and Bonds	-	-	472,148	-	472,148
	<u>-</u>	<u>-</u>	<u>779,256</u>	<u>-</u>	<u>779,256</u>
Total Investments	<u>\$ 101,770,835</u>	<u>\$ -</u>	<u>\$ 69,076,962</u>	<u>\$ 36,747,224</u>	<u>\$ 207,595,021</u>

At no time during the fiscal year did the City borrow funds through the use of reverse-repurchase agreements.

The management of the State of California Local Agency Investment Fund (LAIF) has indicated to the City that, as of June 30, 2004, the carrying amount of the pool was \$57,600,699,158 and the estimated fair value of the pool (including accrued interest) was \$57,637,500,817. The City's proportionate share of that value is \$16,972,531. Included in LAIF's investment portfolio are asset backed securities totaling \$923,459,000. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

**NOTE 3. SPECIAL ASSESSMENTS**

On August 1, 1992, the City issued \$10,794,799 of seismic improvement special assessment bonds. The proceeds of the bonds were used to finance the construction and installation of seismic resistance improvements to certain commercial properties within the boundaries of the City of Santa Barbara Seismic Safety Assessment District No. 1. The bonds are limited obligations payable solely from annual assessments to be levied and collected in semi-annual installments on properties within the Assessment District. The City is not obligated to advance funds, other than the bond proceeds placed in a Reserve Fund, in the event of delinquencies in the payment of assessment installments.

Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds or the interest thereon, and no owner of the bonds may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of, and any interest on, the bonds are not a legal debt of the City. The City is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to the fiscal agent for payment to bondholders and initiating foreclosure proceedings, if appropriate. At June 30, 2004, the amount of bonds outstanding was \$290,000.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Increases	Decreases	Ending Balance June 30, 2004	Internal Service Fund Activity	Total Governmental Capital Assets
<b>Governmental Activities:</b>						
Non-Depreciating Capital Assets:						
Land	\$ 47,795,017	\$ -	\$ -	\$ 47,795,017	\$ -	\$ 47,795,017
Construction in progress	3,821,810	4,212,920	(834,491)	7,200,239	-	7,200,239
Total Non-Depreciating Capital Assets	<u>51,616,827</u>	<u>4,212,920</u>	<u>(834,491)</u>	<u>54,995,256</u>	<u>-</u>	<u>54,995,256</u>
Depreciating Capital Assets:						
Buildings	18,150,842	-	-	18,150,842	105,889	18,256,731
Building improvements	3,084,319	-	-	3,084,319	-	3,084,319
Improvements other than buildings	31,623,199	1,001,667	-	32,624,866	-	32,624,866
Drainage	126,452	-	-	126,452	-	126,452
Equipment	6,840,834	717,907	-	7,558,741	15,965,033	23,523,774
Infrastructure	2,255,080	-	-	2,255,080	-	2,255,080
Total depreciating capital assets	<u>62,080,726</u>	<u>1,719,574</u>	<u>-</u>	<u>63,800,300</u>	<u>16,070,922</u>	<u>79,871,222</u>
Less Accumulated Depreciation:						
Buildings	8,386,828	345,878	-	8,732,706	86,035	8,818,741
Building improvements	1,954,305	100,538	-	2,054,843	-	2,054,843
Improvements other than buildings	14,097,232	1,517,322	-	15,614,554	-	15,614,554
Drainage systems	4,215	4,215	-	8,430	-	8,430
Equipment	4,583,439	431,093	-	5,014,532	10,949,588	15,964,120
Infrastructure	102,845	102,845	-	205,690	-	205,690
Total accumulated depreciation	<u>29,128,864</u>	<u>2,501,891</u>	<u>-</u>	<u>31,630,755</u>	<u>11,035,623</u>	<u>42,666,378</u>
Total capital assets, being depreciated, net	<u>32,951,862</u>	<u>(782,317)</u>	<u>-</u>	<u>32,169,545</u>	<u>5,035,299</u>	<u>37,204,844</u>
Total governmental capital assets, net	<u>\$ 84,568,689</u>	<u>\$ 3,430,603</u>	<u>\$ (834,491)</u>	<u>\$ 87,164,801</u>	<u>\$ 5,035,299</u>	<u>\$ 92,200,100</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Administration	\$ 63,741
Administrative Services	29,503
Finance	7,947
Public Safety	115,084
Public Works	443,721
Community Services	476,872
Community Development	1,365,023
General Governmental Depreciation	<u>2,501,891</u>
Capital assets held by the city's internal service funds are charged to the various functions based on usage of the assets	1,358,776
Total depreciation expense - governmental activities	<u>\$ 3,860,667</u>

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

	Beginning Balance July 1, 2003	Increases	Decreases	Ending Balance June 30, 2004
<b>Business Type Activities:</b>				
Non-depreciating capital assets:				
Land	\$ 19,201,133	\$ -	\$ -	\$ 19,201,133
Construction in progress	20,831,744	23,019,670	(3,605,260)	40,246,154
Total non-depreciating capital assets	<u>40,032,877</u>	<u>23,019,670</u>	<u>(3,605,260)</u>	<u>59,447,287</u>
Depreciating capital assets:				
Buildings	32,689,878	-	-	32,689,878
Building improvements	3,303,004	279,784	-	3,582,788
Other Improvements and Drainage	186,515,775	2,867,981	-	189,383,756
Equipment	17,096,470	2,270,951	-	19,367,421
Underground piping	70,231,704	488,704	-	70,720,408
Total depreciating capital assets	<u>309,836,831</u>	<u>5,907,420</u>	<u>-</u>	<u>315,744,251</u>
Less accumulated depreciation:				
Buildings	19,518,365	773,051	-	20,291,416
Building improvements	1,571,504	96,931	-	1,668,435
Other Improvements and Drainage	101,626,801	7,421,992	-	109,048,793
Equipment	11,343,099	804,207	-	12,147,306
Underground piping	33,629,891	1,469,516	-	35,099,407
Total accumulated depreciation	<u>167,689,660</u>	<u>10,565,697</u>	<u>-</u>	<u>178,255,357</u>
Net depreciating capital assets	<u>142,147,171</u>	<u>(4,658,277)</u>	<u>-</u>	<u>137,488,894</u>
Total business-type activities				
Capital assets, net	<u>\$ 182,180,048</u>	<u>\$ 18,361,393</u>	<u>\$ (3,605,260)</u>	<u>\$ 196,936,181</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:

Water	\$ 3,549,112
Wastewater	2,173,535
Airport	2,272,114
Waterfront	1,993,315
Downtown parking	407,967
Golf	<u>169,654</u>
Total depreciation expense - business-type activities	<u>\$ 10,565,697</u>

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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**NOTE 5. INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of inter-fund balances as of June 30, 2004, is as follows:

<u>Due to/from other funds</u>		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Activities</b>		
General Fund	Other Governmental Funds	\$ 1,480,791
Street Capital Improvements	Other Governmental Funds	157,099
Redevelopment Agency	General Fund	281,253
	Total Governmental Activities	<u>\$ 1,919,143</u>
<b>Fiduciary Funds</b>		
General Fund	California Law Enforcement	
	Telecommunications System Agency Fund	<u>\$ 21,322</u>
<u>Advances to/from other funds</u>		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Activity:</b>		
General Fund	<b>Business Type Activity:</b>	
	Waterfront	<u>\$ 1,735,517</u>

The interfund balances at June 30, 2004, are generally short-term loans to cover temporary cash deficits in various funds, with the exception of the interfund balance between the General Fund and the Redevelopment Agency. The interfund receivable of \$281,253 in the Redevelopment Agency represents the Agency's receivable for special assessment taxes collected by the General Fund.

In addition, the City's General Fund has periodically advanced money to the Waterfront Enterprise Fund. These advances, totaling \$1,735,517 at June 30, 2004, were for the purposes of rehabilitation of the Stearns Wharf and development of a waterfront-parking program. Such advances bear no interest and are repayable as the Waterfront Fund's results of operations permit.

The net transfers of \$691,954 from the Fiduciary Funds to the governmental activities represents transfers from the Library Trust Fund to the General Fund and County Library Special Revenue Fund primarily to purchase library books.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

A summary of interfund transfers during the year follows:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>					Total
	General Fund	Redevelopment Agency Capital Projects	Streets Capital Fund	Internal Service Funds	Other Governmental Funds	
<b>Governmental Activities</b>						
General Fund	\$ -	\$ -	\$ -	\$ 150,000	\$ 1,373,673	\$ 1,523,673
Redevelopment Agency	-	8,188,427	-	-	71,499	8,259,926
Other Governmental Funds	485,954	-	1,699,431	-	1,876,531	4,061,916
<b>Total Governmental Activities</b>	485,954	8,188,427	1,699,431	150,000	3,321,703	13,845,515
<b>Fiduciary Funds</b>	401,474	-	-	-	290,480	691,954
<b>Total Transfers</b>	<u>\$ 887,428</u>	<u>\$ 8,188,427</u>	<u>\$ 1,699,431</u>	<u>\$ 150,000</u>	<u>\$ 3,612,183</u>	<u>\$ 14,537,469</u>

The interfund transfers are generally made for the purpose of debt service payments made from a debt service fund but funded from an operating fund or subsidy transfers, and for capital projects expenditures funded by the City's General Fund. There were no significant transfers during the fiscal year that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

**NOTE 6. LONG-TERM DEBT**

The City has issued debt in both the governmental and business-type activities to provide funds for the acquisition and construction of major capital facilities. The types of debt include (1) Revenue Bonds where the City pledges income derived from a business-type activity to pay debt service, (2) tax allocation bonds where property tax allocations of the Redevelopment Agency are pledged to pay debt service, (3) certificates of participation that pledge general government revenue to pay base rent payments to the Santa Barbara Public Financing Corporation for real property and improvements owned by the City, and (4) loans from other governmental agencies.

A description of long-term obligations outstanding at June 30, 2004, by category follows:

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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	Amount Outstanding <u>June 30, 2004</u>
<b>Revenue Bonds</b>	
<i>Water Fund:</i>	
\$9,780,000 – 1994A water revenue refunding serial bonds, remaining annual installments range from \$420,000 to \$510,000 through September 1, 2008, term bonds of \$3,835,000 due on September 1, 2014, interest at 4.4% to 5.1% due semi-annually. Bonds maturing on or after September 1, 2004, shall be subject to redemption, at the option of the City, upon at least 45 days prior written notice to the Trustee specifying the date and amount of such redemption, on or after September 1, 2003 in whole or part on any date (by lot within any maturity and among maturities as specified by the City). Bonds maturing on September 1, 2014 shall be subject to mandatory redemption, on each date which a sinking installment payment for such Term Bonds is payable from sinking installment, by lot, in an amount equal to such sinking installment payments, plus accrued interest to the redemption date and without premium.	\$ 6,255,000
Total revenue bonds	\$ 6,255,000
<b>Tax Allocation Bonds</b>	
<i>Redevelopment Agency:</i>	
\$34,810,000 - 2003 Redevelopment Agency Tax Allocation Refunding Bonds, Series A. Remaining annual principal installments on serial bonds range from \$1,140,000 to \$2,835,000 beginning March 1, 2004 through March 1, 2019. Interest rates range from 2.00% to 5.00% payable semi-annually on September and March 1st.	\$ 32,725,000
\$38,855,000 - 2001 Redevelopment Agency Tax Allocation Refunding Bonds, Series A. Remaining annual principal installments on serial bonds range from \$2,785,000 to \$4,340,000 beginning March 1, 2009 through March 1, 2019. Interest rates range from 4.00% to 5.00% payable semi-annually on September and March 1st.	38,305,000
\$28,170,000 - 1995 Redevelopment Agency Tax Allocation Refunding Bonds, Series A. Remaining annual principal installments on serial bonds range from \$1,935,000 to \$2,330,000 through March 1, 2005. Term bonds of \$7,235,000 are due March 1, 2008. Interest rates range from 3.65% to 6.0% payable semi-annually.	9,080,000
\$6,845,000 – 1995 Redevelopment Agency Tax Allocation Refunding Bonds, Series B. \$2,545,000 term bonds are due March 1, 2007. Interest rates range from 4.375% to 6.35% payable semi-annually.	1,925,000
Total tax allocation bonds	\$ 82,035,000

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

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**Certificates of Participation**

General Fund:

\$4,184,400 - 2002 Refunding Municipal Certificates of Participation, remaining annual installments range from \$204,600 to \$339,900 beginning August 1, 2003 through 2017. Interest rates range from 3.0% to 4.625% payable semi-annually. \$ 3,725,700

Waterfront Fund:

19,405,000 - 2002 Waterfront Refunding Certificates of Participation, remaining annual installments range from \$490,000 to \$1,230,000 beginning October 1, 2002 through 2027. Term certificates of \$16,090,000 are due on October 2027. Interest rates range from 3.75% to 6.75% payable semi-annually. Certificates maturing on or after October 1, 2004, are subject to optional prepayment prior to maturity on or after October 1, 2003. The Certificates are subject to mandatory prepayment prior to maturity on any date, in inverse order of maturity and by lot within a maturity, from the net proceeds of insurance or condemnation awards. 18,195,000

Golf Fund:

\$2,155,600 - 2002 Refunding Municipal Certificates of Participation, remaining annual installments range from \$105,400 to \$175,100 beginning August 1, 2003 through 2017. Interest rates range from 3.0% to 4.625% payable semi-annually. 1,919,300

Water Fund:

\$15,535,000 - 2002 Refunding Water Certificates of Participation, remaining annual installments range from \$380,000 to \$675,000 beginning September 1, 2003 through September 1, 2027. Interest rates range from 3.0% through 4.750% payable semi-annually. 14,620,000

Total certificates of participation \$ 38,460,000

**Loans Payable**

Water Fund:

\$2,000,000 - State Department of Water Resources Loan. Due in 20 annual payments of \$150,894 each on April 30. Interest is 4.0128% per annum. The final payment is due April 30, 2009. \$ 684,249

\$5,000,000 - State Department of Water Resources Loan. Due in 20 annual payments of \$342,477 on April 30. Interest is 3.1% per annum. The final payment is due November 30, 2011. 2,286,992

\$15,965,705 - State Department of Water Resources Loan. Due in semiannual payments commencing January 1, 2006. Interest is 2.5132% per annum. The final payment is due July 1, 2025. 15,965,705

\$2,961,877 - State Department of Water Resources Loan. Due in semiannual payments commencing January 1, 2007. Interest is 2.7934% per annum. The final payment is due July 1, 2026. 2,961,877

Total loans \$ 21,898,823

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
**June 30, 2004**

Long-term liability activity for the year ended June 30, 2004, is as follows:

	Beginning Balance July 1, 2003	Additions	Deductions	Ending Balance June 30, 2004	Due Within One Year	Due in More Than One Year
<b><i>Governmental Activities</i></b>						
Certificates of participation	\$ 3,930,300	\$ -	\$ 204,600	\$ 3,725,700	\$ 214,500	\$ 3,511,200
Tax allocation bonds	59,675,000	34,810,000	12,450,000	82,035,000	4,535,000	77,500,000
Long-term debt of governmental activities	<u>63,605,300</u>	<u>34,810,000</u>	<u>12,654,600</u>	<u>85,760,700</u>	<u>4,749,500</u>	<u>81,011,200</u>
<b><i>Business-Type Activities</i></b>						
Revenue Bonds	7,125,000	-	870,000	6,255,000	435,000	5,820,000
Certificates of participation	35,709,700	-	975,400	34,734,300	995,500	33,738,800
Loans	8,463,785	13,817,127	382,089	21,898,823	395,017	21,503,806
Long-term debt of business-type activities	<u>51,298,485</u>	<u>13,817,127</u>	<u>2,227,489</u>	<u>62,888,123</u>	<u>1,825,517</u>	<u>61,062,606</u>
<b>Total debt activity</b>	<u><u>\$ 114,903,785</u></u>	<u><u>\$ 48,627,127</u></u>	<u><u>\$ 14,882,089</u></u>	<u><u>\$ 148,648,823</u></u>	<u><u>\$ 6,575,017</u></u>	<u><u>\$ 142,073,806</u></u>

As discussed in Note 1Q, long-term obligations due in one year on the government-wide Statement of Net Assets for Governmental Activities of \$13,268,246 include \$4,581,206 and \$3,937,540 representing the current portion of accrued compensated absences and actuarial liability, respectively. Long-term obligations due in one year for Business Activities of \$2,814,365 include \$988,848 representing the current portion of accrued compensated absences.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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The annual requirements to amortize all long-term debt outstanding, as of June 30, 2004, are as follows:

Fiscal Year Ending	Principal Payments				Total
	Revenue Bonds	Tax Allocation Bonds	Certificates of Participation	Other Loans	
2005	435,000	4,535,000	1,210,000	395,016	6,575,016
2006	460,000	4,720,000	1,250,000	1,031,579	7,461,579
2007	480,000	4,920,000	1,275,000	1,437,837	8,112,837
2008	510,000	4,405,000	1,330,000	1,860,819	8,105,819
2009	535,000	4,645,000	1,375,000	1,929,331	8,484,331
2010 - 2014	3,115,000	26,115,000	7,370,000	5,489,401	42,089,401
2015 - 2019	720,000	32,695,000	8,550,000	4,103,690	46,068,690
2020 - 2024	-	-	8,580,000	4,649,520	13,229,520
2025 - 2029	-	-	7,520,000	1,001,630	8,521,630
Principal payments outstanding	6,255,000	82,035,000	38,460,000	21,898,823	148,648,823

Fiscal Year Ending	Interest Payments				Total
2005	289,800	3,699,984	1,550,956	98,355	5,639,095
2006	268,320	3,511,284	1,523,956	482,341	5,785,901
2007	245,760	3,313,884	1,493,506	732,089	5,785,239
2008	222,000	3,106,884	1,458,686	965,106	5,752,676
2009	196,920	2,871,084	1,595,237	912,156	5,575,397
2010 - 2014	562,200	11,454,692	5,691,128	1,526,863	19,234,883
2015 - 2019	17,280	4,871,260	5,268,219	999,053	11,155,812
2020 - 2024	-	-	3,090,434	884,580	3,975,014
2025 - 2029	-	-	671,897	18,919	690,816
Interest payments outstanding	1,802,280	32,829,072	22,344,019	6,619,462	63,594,833
Total Debt Service Obligation	\$ 8,057,280	\$ 114,864,072	\$ 60,804,019	\$ 28,518,285	\$ 212,243,656

**Current Year's Defeasance of Debt**

1993 Redevelopment Agency Series 1993 Tax Allocation Bonds

On December 3, 2003 the Redevelopment Agency issued \$34,810,000 Tax Allocation Bonds, Series 2003A with an average coupon interest rate of 4.371% to advance refund \$7,240,000 of outstanding Redevelopment Agency Tax Allocation Bonds, Series 1993, with an average remaining coupon interest rate of 6.29%. A portion of net proceeds, totaling \$35,002,542 (including an original issue premium of \$1,133,830, less payment of \$941,288 in underwriting fees, bond insurance, and other issuance costs) plus an additional \$1,461,929 of 1993 Tax Allocation Bond reserve fund monies were used to purchase U.S. Government Securities. Those securities, totaling \$7,545,344, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Tax Allocation Bonds. As a result, the 1993 Tax Allocation Bonds are considered defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of \$305,341. This difference, reported in the accompanying basic financial statements as a deferred charge, is being charged to operations through the final maturity date of the 2003 Tax Allocation Bonds in March 2019 using the straight-line method. The City completed the advance refunding to reduce its total debt service payments by \$1,545,656 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$295,654.

**CITY OF SANTA BARBARA**  
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**Prior Year's Defeasance of Debt**

In prior years, the City defeased certain debt issues by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements.

The City has complied with all revenue bond covenants.

**NOTE 7. CONTINGENCIES**

**Litigation and Claims**

The City is presently involved in matters of litigation and claims that have arisen in the normal course of conducting City business. City management believes that, based upon consultation with the City Attorney, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City.

**Grants**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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**NOTE 8. SEGMENT INFORMATION**

Summary financial information, as of and for the fiscal year ended June 30, 2004 for the City's enterprise funds is presented below:

*Condensed Statement of Net Assets:*

	Golf Course
Assets:	
Current assets	\$ 1,214,206
Capital assets	2,832,168
Other non-current assets	149,294
Total assets	4,195,668
Liabilities:	
Current liabilities	219,902
Non-current liabilities	1,808,800
Total liabilities	2,028,702
Net assets:	
Invested in capital assets, net of related debt	1,062,162
Unrestricted	1,104,804
Total net assets	\$ 2,166,966

*Condensed Statement of Revenues, Expenses, and Changes in Net Assets:*

	Golf Course
Charges for services pledged	
-against bonds	\$ 2,045,802
Depreciation expense	(169,654)
Other operating expenses	(1,655,016)
Operating income (loss)	221,132
Non-operating revenues (expenses):	
Investment earnings	9,373
Interest expense	(45,173)
Change in net assets	185,332
Beginning net assets	1,981,634
Ending net assets	\$ 2,166,966

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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*Condensed Statement of Cash Flows:*

	Golf Course
Net cash provided (used) by:	
Operating activities	\$ 406,642
Capital and related financing activities	(222,781)
Investing activities	9,373
Net increase (decrease)	193,234
Beginning cash and equivalents	1,018,222
Ending cash and equivalents	\$ 1,211,456

**NOTE 9. RETIREMENT COMMITMENTS**

**Employee Retirement Systems and Pension Plans**

Plan Description

The City of Santa Barbara contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial reports may be obtained from their Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Method

The actuarial funding method used for the Retirement Program is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces a level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and 10% of the net unamortized gain or loss will be amortized each year. Finally, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

**CITY OF SANTA BARBARA**  
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Funding Policy

PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. Under GASB 27, the City reports its annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the actual plan contributions for the year. The cumulative difference is the net pension obligation (NPO). The ARC for the period July 1, 2003 to June 30, 2004 has been determined by an actuarial valuation of the plan as of June 30, 2001. Employer rates for each of the City's three (3) retirement plans is as follows: the miscellaneous, non-safety, members rate is 3.161%, the safety police plan rate is 23.665%, and the safety fire plan rate is 21.549% of payroll. Miscellaneous, non-safety, members contribute 7% and safety members contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The contribution requirements of the City and plan members are established and may be amended by PERS.

A CalPERS member, safety and non-safety, becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements).

Annual Pension Cost

For fiscal year ended June 30, 2004, the City's annual pension costs, for all of the retirement plans, in the amount of \$10,872,028 for PERS was equal to the City's required and actual contributions. The required contribution for fiscal year 2004 was determined as part of the June 30, 2001, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include:

(a) valuation date	June 30, 2001
(b) amortization method	level percent of payroll
(c) average remaining period	19 years as of the valuation date – non-safety miscellaneous 32 years as of the valuation date – safety fire 15 years as of the valuation date – safety police
(d) asset valuation method	3 years smoothed market
(e) actuarial assumptions:	
-investment rate of return	8.25% (net of administrative expenses)
-projected salary increases	4.27% to 11.59% depending on age, service and type of employment – safety 3.75% to 14.20% depending on age, service, and type of employment – non-safety
-inflation	3.50%
-payroll growth	3.75%
-individual salary growth	a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Three-year trend information for the City's Annual Pension Cost for all plans follows:

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Three-year Trend Information (all Plans):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/02	\$ 5,485,044	100%	\$0
06/30/03	7,805,022	100%	\$0
06/30/04	10,872,028	100%	\$0

Funded Status of the Plans

The tables below display a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability (or Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UUAL) as a percentage of that covered payroll. This data is based upon the most recent actuarial valuation dated June 30, 2001 as provided by CalPERS.

Fiscal Year	Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded/ (Over-funded) Liability as a % of Payroll
<u>Miscellaneous Plan:</u>							
2002	06/30/99	\$ 127,489,880	\$ 159,918,371	\$ (32,428,491)	125.4%	\$ 32,688,682	-99.2%
2003	06/30/00	140,199,867	175,207,919	(35,008,052)	125.0%	35,864,313	-97.6%
2004	06/30/01	155,405,646	180,581,042	(25,175,396)	116.2%	38,839,327	-64.8%
<u>Safety Fire Plan:</u>							
2002	06/30/99	65,021,824	69,065,429	(4,043,605)	106.2%	6,298,310	-64.2%
2003	06/30/00	71,328,030	75,062,672	(3,734,642)	105.2%	6,666,421	-56.0%
2004	06/30/01	79,281,892	76,974,607	2,307,285	97.1%	7,655,484	30.1%
<u>Safety Police Plan:</u>							
2002	06/30/99	68,164,600	78,646,886	(10,482,286)	115.4%	9,624,119	-108.9%
2003	06/30/00	88,811,850	90,054,739	(1,242,889)	101.4%	10,767,724	-11.5%
2004	06/30/01	97,930,578	92,469,858	5,460,720	94.4%	11,194,160	48.8%

**City Fire and Police Pension Plans**

Plan Description

In addition to the California PERS, the City provides two additional single-employer, defined benefit pension plans. One, the Safety Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965. The second plan, the Service Retirement Plan, was established to account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 1937 and May 1965, and who were disabled due to job related injuries. A total of twenty-six (24) former public safety (police and fire) employees receive a monthly pension retirement benefit in the form of a cash stipend directly from the City. Both plans have been closed to all other employees as of May 1965 and contributions from the employer and employees also ceased on that date. The City administers the plans in compliance with and under the authority of Article

**CITY OF SANTA BARBARA**  
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XVA of the City Charter. The costs of administering the plans are financed with investment earnings. As of June 30, 2004, thirteen (13) retirees (or beneficiaries) are receiving benefits from the Safety Retirement Pension Trust Fund, and ten (10) retirees (or beneficiaries) are receiving benefits from the Service Retirement Pension Trust Fund.

Funding Policy

All of the pensioners are retirees. Accordingly, the City has had no annual pension cost, as no annual required contributions (ARC) have been required for more than three years. In addition, the City has had no net pension obligation (NPO) in any of the three years ended June 30, 2004.

Information regarding these plans is as follows:

	Safety Retirement Plan	Service Retirement Plan
Authority	Charter	Charter
Date of valuation	June 30, 2004	June 30, 2004
Asset valuation	Fair value as measured by the market price of investments. This plan has an equity share in the City's investment pool	Fair value as measured by the market price of investments. This plan has an equity share in the City's investment pool
Actuarial cost method*	Aggregate	Aggregate
Number of participants	13	10
Actuarial assumptions:		
Discount Rate	7%	7%
Cost of Living Adjustment	4%	4%
Mortality	1983 Group Annuity Mortality Table	

\*The aggregate actuarial cost method does not identify or separately amortize un-funded actuarial liabilities.

A separate stand-alone financial report is not issued for the Pension Trust Fund. All members of the plan are retired. The plans were closed as of 1965.

**Deferred Compensation Plan**

The City offers two deferred compensation plans for regular employees and one for temporary employees created in accordance with Internal Revenue Code Section 457. Under the terms of these plans, employees may defer amounts of income up to a maximum of thirty three percent (33%) of salary or \$13,000 per year, whichever is less. Amounts so deferred may be withdrawn or directed for future payment at separation of employment but may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue and unforeseen financial hardship for the employee.

Effective January 1, 1999, Federal legislation (Small Business Job Protection Act of 1996) requires the Section 457 plan assets to be placed in trust for the exclusive use of the plan participants and their beneficiaries. The City's deferred compensation administrator qualifies as the plan trustee to meet Federal requirements. Since the plan assets are no longer considered the property and rights of the City, such assets are no longer reflected in the accompanying basic financial statements.

**CITY OF SANTA BARBARA**  
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**NOTE 10. CLASSIFICATION OF NET ASSETS**

In the Government-wide financial statements, net assets are classified as the following:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- *Restricted Net Assets* – this category presents all external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the City Council.
- *Unrestricted Net Assets* – This category represents the net assets of the City, which are not restricted for any project or other purpose.

In the Fund financial statements, reserves and designations segregate portions of the fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions. The components of the City’s fund balances at June 30, 2004, consist of the following:

	Special Revenue Funds			Capital Projects Fund		Other Governmental Funds	Total
	General Fund	Redevelopment Agency	Community Development	Redevelopment Agency	Street Capital		
			Block Grant		Improvements		
Reserved:							
Encumbrances	\$ 960,856	\$ 898,226	\$ -	\$ 1,264,082	\$ 1,079,164	\$ 2,865,774	\$ 7,068,102
Non-current receivables	2,861,340	27,526,804	2,347	-	-	-	30,390,491
Due from other agencies	-	-	-	150,959	-	505,218	656,177
Assets available for resale	-	433,952	-	-	-	-	433,952
Redevelopment projects	-	2,456,980	-	68,048,317	-	-	70,505,297
Low and moderate income housing	-	8,236,892	-	-	-	-	8,236,892
Debt service	-	-	-	-	-	1,248,216	1,248,216
Library	-	-	-	-	-	1,208,242	1,208,242
Public safety	-	-	-	-	-	450,714	450,714
Community development	-	-	-	-	-	1,576,745	1,576,745
Future projects	-	-	-	-	-	2,245,825	2,245,825
Street improvements	898,082	-	-	-	-	3,765,847	4,663,929
<b>Total reserved</b>	<b>4,720,278</b>	<b>39,552,854</b>	<b>2,347</b>	<b>69,463,358</b>	<b>1,079,164</b>	<b>13,866,581</b>	<b>128,684,582</b>
Designated:							
Capital	1,000,000	-	-	-	-	-	1,000,000
Vacation and overtime	4,300,093	-	-	-	-	-	4,300,093
Continuing appropriations	147,238	-	-	-	-	-	147,238
Contingencies	21,521,151	-	-	-	-	-	21,521,151
<b>Total designated</b>	<b>26,968,482</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,968,482</b>
Unreserved - undesignated	1,177,761	-	-	-	3,402,865	719,580	5,300,206
<b>Total fund balances</b>	<b>\$ 32,866,521</b>	<b>\$ 39,552,854</b>	<b>\$ 2,347</b>	<b>\$ 69,463,358</b>	<b>\$ 4,482,029</b>	<b>\$ 14,586,161</b>	<b>\$ 160,953,270</b>

**CITY OF SANTA BARBARA**  
**Notes to the Basic Financial Statements**  
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**NOTE 11. SELF-INSURANCE TRUST FUND**

The City is partially self-insured for workers' compensation and general and automobile liability claims, and fully self-insured for unemployment claims. The City has been partially self-insured for workers' compensation since 1974, and partially self-insured for general and automobile liability since 1978.

Insurable property is covered for all risks by policies with a pooled aggregate limit of \$500,000,000. Earthquake and flood coverage with limits of \$50 million on a shared basis is included as well. Various unique risks such as airport liability, marine hull protection and indemnity, and boiler and machinery are fully insured. The City also maintains a full-faith performance bond.

In May 1986, the City joined the Authority of California Cities Excess Liability (ACCEL). ACCEL is a public entity risk pool created for the purpose of pooling various public sector risks. ACCEL began its eighteenth program year with membership totaling twelve (12) cities. ACCEL was formed under the Joint Powers Agreement (JPA) provisions of State Law (Government Code Sections 990, 990.4, 990.8 and 6500-6515). In addition to the joint powers agreement, ACCEL is governed by bylaws and an investment policy adopted by the ACCEL members.

ACCEL settlements have not exceeded coverage in any of the past fiscal years. ACCEL now transfers most of its risk sharing exposures through the purchase of a commercial policy with American Insurance Group (AIG). ACCEL members have a \$1 million self-insured retention. The ACCEL pools the next \$2 million. AIG provide \$20 million above.

A Memorandum of Coverage acts as the instrument by which member cities are protected against covered losses above their self-insured retention (SIR). Coverage includes comprehensive general and automobile liability protecting against bodily injury, property damage, public officials errors and omissions, personal injury, employment practices, as well as damages arising from owned, non-owned, and hired automobiles.

A Board of Directors consisting of one representative from each member city governs ACCEL. This Board controls all aspects of ACCEL policy including budgeting and finance. ACCEL conducts annual financial, claims, and payroll audits, with an actuarial review performed every two years. A retrospective rating is performed each year on the program year ended five years earlier. The retrospective rating determines each member's share of losses and deposit return.

ACCEL members share pool losses above their self-insured retention. Losses are paid from a pool of funds comprised of member deposits. Deposits are actuarially determined to insure that funds are available to pay pool losses. ACCEL collects a deposit from each member for each program year in which the member participates. Separate deposit accounts are set for each member for each year of participation. Deposits are invested into pre-approved vehicles and each member account is credited monthly with investment income at the rate earned by the investment vehicle. ACCEL adopted its investment policy in accordance with existing government code criteria.

There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in any of the past fiscal years.

The City's self-insured retention for liability is \$1,000,000. ACCEL members now jointly purchase \$20,000,000 in limits above their SIRs from commercial markets. The City's self-insured retention for workers' compensation is \$750,000. An indemnity policy provides limits of \$45 million in excess of the City's self-insured retention and a \$5 million pooled layer. Employers' Liability is also included with the limits of \$5 million.

An indemnity policy underwritten by Employers Reinsurance Company provides a \$25,000,000 limit in excess of the City's self-insured retention and \$5,000,000 in Employers' Liability.

**CITY OF SANTA BARBARA**  
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The City's self-insurance fund is financed through contributions made by the City's General and Enterprise Funds. Actuarially determined liabilities in the fund include provisions for "incurred but not reported" claims. As of June 30, 2004, the estimated outstanding liabilities are \$7,034,536 for workers' compensation and \$1,702,810 for general and automobile liability. These liabilities are based on an actuarial valuation as of June 30, 2004. There are no unpaid claims for which annuity contracts have been purchased.

The City is self-insured for unemployment claims. At June 30, 2004, the liability for unemployment claims was \$34,585.

The City also maintains a self-insured plan for vision coverage offered to employees. The rates for the dental and vision coverage are set in accordance with the results of an actuarial study performed for the City. Rates are established at a level sufficient to fund current claims as well as maintain reserves for claims incurred but not reported.

A summary of changes in claims liabilities is shown below:

	2004	2003
Claims liabilities, July 1	\$ 10,642,000	\$ 7,587,957
Incurred claims	(2,745,471)	5,844,480
Payments on claims attributable to events of current and prior years	2,745,471	(2,790,437)
Claims liabilities, June 30	\$ 10,642,000	\$ 10,642,000

**NOTE 12. JOINT VENTURES**

In 1991, the City's electorate approved participation in the State Water Project (SWP). As a result, the City joined in the formation of the Central Coast Water Authority (CCWA) in September 1991. The purpose of the Central Coast Water Authority is to provide for the financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each Santa Barbara Project participant, including the City of Santa Barbara, has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara Project participants to buy, a specified amount of water from CCWA ("take or pay"); and (2) assigning the Santa Barbara Project participant's entitlement rights in the State Water Project to CCWA. Although the City does have an ongoing financial responsibility pursuant to the Water Supply Agreement between the City and CCWA, the City does not have an equity interest as defined by GASB Cod. Sec. J50.105.

Each Santa Barbara Project participant is required to pay to CCWA an amount equal to its share of the total cost of "fixed project costs" and certain other costs in the proportion established in the Water Supply Agreement. This includes the Santa Barbara Project participant's share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operating and administrative costs.

Each Santa Barbara Project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payments required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

CCWA is composed of eight members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are apportioned between the entities based upon each entity's pro-rata share of the water provided by the project. The City's share of the project, based upon number of acre-feet of

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water, is 7.7%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

On October 1, 1992, CCWA sold \$177,200,000 in revenue bonds at a true interest cost of 6.64% to enable CCWA to finance a portion of the costs of constructing a water treatment plant to treat State water for use by various participating water purveyors and users within Santa Barbara and San Luis Obispo Counties, a transmission system to deliver such water to the participating water purveyors and users within Santa Barbara County, and certain local improvements to the water systems of some of the participating purveyors.

In November 1996, CCWA sold \$198,015,000 of revenue bonds at a true interest cost of 5.55% to defease CCWA's \$177,120,000 1992 revenue bonds and to pay certain costs of issuing the bonds. The 1996 bonds were issued in two series: Series A of \$173,015,000 and Series B of \$25,000,000. The Series B bonds are subject to mandatory redemption from amounts transferred from the Construction Fund and the Reserve Fund upon completion of the construction of CCWA facilities.

Pursuant to the Water Supply Agreement, the City of Santa Barbara's payments to CCWA includes its share of DWR's fixed and variable costs, the debt service requirements on the CCWA Bonds, CCWA's fixed operating and maintenance costs, and variable costs, as shown in the table below:

Fiscal Year	DWR Costs		CCWA Costs			Total CCWA Cost	Total CCWA and DWR Costs
	Fixed	Variable (1)	Fixed	Variable (1)	Debt Service (2)		
2004-05	\$ 2,390,053	\$ 79,736	\$ 130,945	\$ (26)	\$ 1,764,958	\$ 1,895,877	\$ 4,365,666
2005-06	2,460,162	158,292	147,572	(26)	1,770,005	1,917,551	4,536,005
2006-07	2,419,004	43,688	159,509	(26)	1,772,853	1,932,336	4,395,028
2007-08	2,457,106	92,863	171,860	(27)	1,767,248	1,939,081	4,489,050
2008-09	2,342,980	-	177,015	-	1,767,248	1,944,263	4,287,243
Thereafter	55,446,526	-	7,422,418	-	24,650,138	32,072,556	87,519,082
Total	<u>\$ 67,515,831</u>	<u>\$ 374,579</u>	<u>\$ 8,209,319</u>	<u>\$ (105)</u>	<u>\$ 33,492,450</u>	<u>\$ 41,701,664</u>	<u>\$ 109,592,074</u>

(1) Variable costs only shown through fiscal year 2007-08 because delivery information is not available thereafter.

(2) Net of debt service reserve fund interest earnings.

Additional information and complete financial statements for the CCWA are available for public inspection in the Finance Department at City Hall, 735 Anacapa Street, between the hours of 8:00 am and 5:00 p.m., Monday through Friday.

**NOTE 13. DUE FROM OTHER AGENCIES**

On December 6, 1994, the County of Orange (Orange County) and the Orange County Investment Pools (Pool) filed petitions for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code. The City was one of over 180 participants in the Pool (Pool Participants). As of December 6, 1994, the City's Pool investment principal balance was \$37,513,262 according to the records of Orange County.

A Comprehensive Settlement Agreement (Settlement) for the Pool was offered to Pool Participants in March 1995. Pool Participants were offered a choice of two settlement options (Option A or Option B). In April 1995, the City Council selected Option B that provided for the return of approximately \$29.3 million and the reservation of all rights to recover the remaining balance from all potential sources, including Orange County and third parties. In September 1995, the City, along with other Option B agencies, filed a complaint for damages against Merrill Lynch.

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In October 1995, the City along with other Option B agencies filed a complaint for damages against Orange County. The complaint for damages against Orange County was settled for a cash distribution totaling \$1,941,268, received in fiscal years 1996 and 1997; and warrants amounting to \$1,603,200, payable in ten equal annual installments of \$160,320, plus interest at the rate of 6.5% on the unpaid balance. As of June 30, 2004, outstanding warrants receivable totaled \$480,956, which has been classified on the balance sheet as “due from other agencies.”

**NOTE 14. PROPOSITION 218 IMPACTS**

Proposition 218, which was approved by the state’s voters in November 1996, will regulate the City’s ability to impose, increase and extend taxes, assessments and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the City’s ability to finance the services for which the taxes, assessments, and fees were imposed may be significantly impaired.

The taxes, fees, and assessments that are subject to the provisions of Proposition 218 that the City currently imposes for its own benefit or as an agent for a special district, or receives from other governmental agencies potentially include business license fees. At this time, it is uncertain how Proposition 218 will affect the City’s ability to establish new, or increase existing, revenues it receives from taxes, assessments and fees. All other taxes, fees and assessments were approved by vote prior to the effective date of Proposition 218.

**NOTE 15. CONDUIT DEBT**

On January 1, 1996, the City of Santa Barbara issued \$16,805,000 in Insured Revenue Certificates of Participation for the benefit of FACT Retirement Services, a nonprofit public benefit corporation organized and existing under the laws of the State of California to provide care to persons over 62 years of age. The Certificates were issued to enable FACT Retirement System to purchase certain real property and improvements located within the City of Santa Barbara.

The Certificates do not constitute a debt or liability of the City of Santa Barbara. Neither the execution and delivery of the Certificates, nor the execution of the related trust agreement or installment agreement, shall directly, indirectly or morally obligate the City to levy or to pledge any form of taxation whatever, or to make any appropriation for their payment.

As of June 30, 2004, the outstanding balance on the Certificates is \$14,475,000.

**NOTE 16. EMPLOYEE MORTGAGE LOAN ASSISTANCE PROGRAM**

On October 2, 2001 the City Council created an Employee Mortgage Loan Assistance Program (“EMLAP”). The purpose of the program is to help the City attract and retain highly qualified employees by providing assistance in dealing with the high cost of home ownership in the Santa Barbara area. The goals of the program include establishing a more stable workforce and, by promoting local homeownership, reducing commuting distances and times. The program is open to all permanent employees who are “first-time homebuyers” (defined as not having owned a home on the South Coast of Santa Barbara County within the last three years). Homes purchased under the City’s EMLAP must be located on the South Coast of Santa Barbara County. The City’s EMLAP is structured using a combination of an employee down payment, traditional bank mortgage financing, and City-provided financing as follows:

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Employee down payment (minimum).....	5%
Bank-provided 1st Deed of Trust loan.....	80%
City-funded 2nd Deed of Trust loan (maximum).....	15%
Total financing	100%

Under the terms of the EMLAP, City participation is limited to a purchase price of \$750,000. Therefore, the maximum second deed of trust loan available to an employee is \$112,500 (15% of \$750,000). Interest on the City loan is variable, adjusted annually, and is set equal to the most recent quarterly interest rate paid the City on its State of California Local Agency Investment Fund (“LAIF rate”) balances. The loan is repayable over 15 years, with interest only due for the first five years, converting to a thirty year amortization schedule payable over 10 years with a balloon payment due at the end of 15 years. Payment is made by payroll deduction. To assist the employee, the City will also pay up to four (4) points to the bank on the employee’s first deed of trust loan up to \$24,000 in order to “buy down” the interest rate on the first trust deed. The points paid by the City are to be repaid when the second trust deed is refinanced or if the home is sold. However, if the employee maintains continuous employment with the City for 5 years from the date of the loan, 25% of the value of the points loan obligation will be forgiven, and after 10 years 50% will be forgiven. Upon termination of employment the second deed of trust loan, and any related points, are payable either on the fifth anniversary of the loan, or 180 days from the last day of employment, whichever is longer

As of June 30, 2004, the City has \$2,245,786 in employee loans outstanding. A total of \$2,500,000 is authorized for employee mortgage loans.

**NOTE 17. DEFICIT FUND EQUITY**

The FEMA Reimbursement Storm Fund and the Self-Insurance Fund have deficit fund balances of \$1,034,714 and \$3,550,428, respectively, as of June 30, 2004. These deficits will be eliminated through reimbursements from other funds.

**NOTE 18. SUBSEQUENT EVENTS**

On July 29, 2004, the Wastewater Fund issued \$20,410,000 Sewer Revenue Bonds, Series 2004. These bonds are payable solely from installment payments secured by net system revenues of the Wastewater Fund of the City of Santa Barbara. The bonds were issued at a discount of \$24,272 with interest rates ranging from 4.0% to 5.0%, and a final maturity date of May 15, 2029. Interest will be paid semiannually on November 15 and May 15 of each year. The bonds were issued to acquire capital improvements to the Wastewater System, to fund a debt service reserve fund, and to pay costs of issuing the bonds.

On September 14, 2004, the RDA issued \$7,150,000 Tax Allocation Housing Bonds, Series 2004A to finance redevelopment activities in the Central City Redevelopment Project Area. The bonds were issued at a premium of \$33,957 with interest rates ranging from 3.0% to 3.75%, and a final maturity date of July 1, 2018. Interest will be paid semiannually on January 1 and July 1 of each year. The majority of the proceeds will be used as a grant to a non-profit developer, which will use the grant to construct and develop the Villa Caridad, a 95-unit senior affordable housing facility.

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**BUDGETARY INFORMATION**

A two-year financial plan is prepared from which annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Effective fiscal control for debt service is achieved through bond indenture provisions. While budgets are prepared for the City's capital projects, capital projects generally span more than one year and are effectively controlled at the project level.

In early January of each year, departments submit their proposed budgets to the City Administrator. These proposals are reviewed and considered, and adjusted as necessary based on funding limitations and priorities. In early April, the City Administrator presents a recommended budget to the City Council. From April through late June, public hearings are held and the recommended budget is reviewed in detail with the Council Finance Committee. The budget is adopted by June 30.

The appropriated budget is prepared by fund, department and program. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed appropriations at the department level for the General Fund and at the fund level for all other legally budgeted funds. Department heads may make transfers of appropriations between line items within a program and across programs lines as long as they are within the same major object category (i.e., Salaries & Benefits, Supplies & Services, Capital, etc.). All other adjustments to appropriations that change the total of a department (within the General Fund) or fund must be approved by Council. Budgeted amounts, as shown, reflect the originally adopted budget and the final budget that includes re-appropriated prior year encumbrances as well as any approved revisions as detailed below. Except for the General Fund, individual amendments were not material in relation to the original appropriations. The original and amended operating budget for the General Fund is shown in the table below.

Originally Adopted Budget	\$ 81,890,950
Re-appropriated Prior Year Encumbrances	1,712,700
Amendments	<u>2,722,822</u>
Amended Budget	<u><u>\$ 86,326,472</u></u>

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. Budget appropriations for governmental funds lapse at year-end unless they are encumbered. Budget appropriations for capital projects and other multi-year projects do not lapse at fiscal year-end and are carried forward through completion of the project.

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GENERAL FUND**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 49,182,700	\$ 49,182,700	\$ 50,172,371	\$ 989,671
Intergovernmental	6,164,461	6,723,242	5,103,830	(1,619,412)
Fines and forfeitures	2,626,179	2,751,179	2,709,270	(41,909)
Use of money and property	1,560,000	1,560,000	780,677	(779,323)
Charges for services	13,680,938	13,581,948	13,947,735	365,787
Other revenues	5,548,331	5,738,178	5,955,606	217,428
Total revenues	<u>78,762,609</u>	<u>79,537,247</u>	<u>78,669,489</u>	<u>(867,758)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Mayor and Council	556,099	592,084	557,493	34,591
City Attorney	1,681,641	1,789,693	1,598,120	191,573
Administration	1,207,305	1,225,016	1,108,281	116,735
Administrative Services	2,240,977	2,385,757	2,117,474	268,283
Finance	4,306,500	4,526,501	4,274,044	252,457
Fire	14,037,658	14,925,746	14,897,958	27,788
Police	24,601,638	26,467,916	26,381,845	86,071
Public Works	4,586,312	4,705,053	4,534,907	170,146
Parks and Recreation	12,589,365	12,564,531	12,182,644	381,887
Library	3,687,342	3,993,491	3,695,883	297,608
Community Development	7,499,416	8,485,692	7,530,433	955,259
General Government	3,377,173	3,100,583	2,266,931	833,652
Total expenditures	<u>80,371,426</u>	<u>84,762,063</u>	<u>81,146,013</u>	<u>3,616,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,608,817)</u>	<u>(5,224,816)</u>	<u>(2,476,524)</u>	<u>2,748,292</u>
<b>Other financing sources (uses):</b>				
Transfers in	705,785	1,003,785	887,428	(116,357)
Transfers out	(1,519,524)	(1,564,409)	(1,523,673)	40,736
Total other financing sources (uses)	<u>(813,739)</u>	<u>(560,624)</u>	<u>(636,245)</u>	<u>(75,621)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(2,422,556)</u>	<u>(5,785,440)</u>	<u>(3,112,769)</u>	<u>2,672,671</u>
Fund balances, beginning of fiscal year	<u>35,979,290</u>	<u>35,979,290</u>	<u>35,979,290</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 33,556,734</u>	<u>\$ 30,193,850</u>	<u>\$ 32,866,521</u>	<u>\$ 2,672,671</u>

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**REDEVELOPMENT AGENCY SPECIAL REVENUE FUND**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 13,100,000	\$ 13,100,000	\$ 12,945,066	\$ (154,934)
Use of money and property	779,000	779,000	716,272	(62,728)
Other revenues	-	-	1,510	1,510
<b>Total revenues</b>	<u>13,879,000</u>	<u>13,879,000</u>	<u>13,662,848</u>	<u>(216,152)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Community development	6,649,000	7,077,659	3,907,032	3,170,627
<b>Total expenditures</b>	<u>6,649,000</u>	<u>7,077,659</u>	<u>3,907,032</u>	<u>3,170,627</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,230,000</u>	<u>6,801,341</u>	<u>9,755,816</u>	<u>2,954,475</u>
<b>Other financing sources (uses):</b>				
Transfers out	(7,230,000)	(8,260,000)	(8,259,926)	74
<b>Total other financing sources (uses)</b>	<u>(7,230,000)</u>	<u>(8,260,000)</u>	<u>(8,259,926)</u>	<u>74</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(1,458,659)	1,495,890	2,954,549
Fund balances, beginning of fiscal year	<u>38,056,964</u>	<u>38,056,964</u>	<u>38,056,964</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 38,056,964</u>	<u>\$ 36,598,305</u>	<u>\$ 39,552,854</u>	<u>\$ 2,954,549</u>

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**COMMUNITY DEVELOPMENT BLOCK GRANT**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,364,000	\$ 2,089,812	\$ 488,870	\$ (1,600,942)
Program income	450,000	450,000	746,090	296,090
Total revenues	<u>1,814,000</u>	<u>2,539,812</u>	<u>1,234,960</u>	<u>(1,304,852)</u>
Expenditures:				
Current:				
Community development	1,814,000	2,539,812	1,234,960	1,304,852
Total expenditures	<u>1,814,000</u>	<u>2,539,812</u>	<u>1,234,960</u>	<u>1,304,852</u>
Fund balances, beginning of fiscal year	<u>2,347</u>	<u>2,347</u>	<u>2,347</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ 2,347</u>	<u>\$ 2,347</u>	<u>\$ 2,347</u>	<u>\$ -</u>

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**MODIFIED APPROACH FOR CITY STREETS INFRASTRUCTURE CAPITAL ASSETS**

In accordance with GASB 34 Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets including the streets system, water and wastewater treatment plants, drainage systems, bridges, and sidewalks. Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete and asphalt pavements, curbs and gutters, sidewalks, streetlights, traffic control devices, landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

The City has elected to use the “Modified Approach” as defined by GASB Statement No. 34 for infrastructure reporting for its Streets Pavement System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with the characteristics of (1) an up-to-date periodic inventory is performed; (2) condition assessments and summary of results using a measurement scale is completed, and (3) annual amounts to maintain and preserve the eligible infrastructure capital assets at the established condition assessment level are estimated.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The pavement network within the City has approximately 236 miles of paved surfaces, comprised of 125 miles of residential streets, 40 miles of principal arterial and arterial streets and 71 miles of collector streets. This equates to almost 40,000,000 square feet of pavement.

In 2001, the City commissioned the development of a Pavement Management System to inventory and document the physical condition assessment of the City’s street network, and to develop a preservation program. Over a period of two years, the study identified and recorded the condition assessment of all of the City’s streets. The streets, primarily concrete and asphalt pavements, were defined as the physical features associated with the operation of motorized vehicles that exist within the limits of the right of way. City owned streets are classified based on land use, access, and traffic utilization into the following four classifications: residential, principal arterial, arterial, and collector. It is anticipated the condition assessment will be performed annually covering at least one-third of the City’s streets on a rotating basis. As part of the study, each street was assigned a physical condition based on a variety of potential defects. A Pavement Condition Index (PCI), a nationally recognized index, is assigned to each street and expressed in a continuous scale from 0 to 100, with 100 being a brand new street and 0 being a badly deteriorated street with virtually no remaining life. The following conditions were assigned:

<u>Condition</u>	<u>Rating</u>
Excellent	86-100
Very Good	71-85
Good	56-70
Fair	41-55
Poor	26-40
Very Poor	11-25
Substandard	0-10

The City’s preservation program and maintenance estimates were developed to maintain the current infrastructure of streets at or above the average actual condition levels of the streets at the time each of the studies was conducted in 2001 and 2002, which were 74 and 75 (“Very Good”), respectively. The City’s formal policy with regard to preservation levels is to maintain a minimum average rating of no less than 60 (“Good”) for all streets. This rating level allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at posted speeds. As of June 30, 2004, the City’s street system was rated an average PCI index of 72 (“Very Good”) with the detail condition as follows:

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<u>Condition</u>	<u>Approximate % of Streets</u>
Excellent to Good	89%
Fair	6%
Poor to Substandard	5%

In general, streets are constantly deteriorating resulting from the following four factors: (1) traffic using the streets; (2) the sun's ultra-violet rays drying out and breaking down the top layer of pavement; (3) utility company/private development interests trenching operations; and (4) water damage from natural precipitation and other urban runoff. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching. The City expended \$3,607,033 on street maintenance for the fiscal year ended June 30, 2004. The City has estimated that the average amount of annual expenditures required for fiscal 2005 to maintain the City's streets at an average PCI rating of at least 70 is approximately \$3,350,000. A schedule of estimated annual amount calculated to maintain and preserve its streets at the current level compared to actual expenditures for street maintenance for the last three years is presented below:

<u>Fiscal Year</u>	<u>Maintenance Estimate</u>	<u>Actual Expenditures</u>	<u>PCI Rating</u>
2001-2002	\$ 3,533,457	\$ 3,485,010	74
2002-2003	2,063,928	4,738,635	75
2003-2004	3,350,000	3,607,033	72

The City's on-going street preservation program is also designed to improve the condition rating of City streets. The preservation program is developed with a six-year cycle that is tied to 6 maintenance zones with 1 zone completed each year. The strategy objective is to reduce the backlog of street preservation work over the next 6 years and increase the overall condition of the road network, and involves both slurry seal and pavement resurfacing as preservation components. For pavements that are beyond economical preservation, reconstruction may be proposed to restore the pavement.



# Nonmajor Governmental Funds

## **NONMAJOR GOVERNMENTAL FUNDS**

**Traffic Safety Fund** - To account for the receipt of fines collected pursuant to the California Vehicle Code. The State of California Government Code restricts use of these funds to traffic control devices, equipment and supplies related to traffic control or traffic safety and maintenance of public streets. The funds may not be used to pay compensation of traffic or police officers.

**Gas Tax Fund** - To account for the receipt and disbursement of the City's share of state gasoline taxes. State law requires that these funds be used to maintain streets.

**Creek Restoration/Water Quality** - To account for funds received from a two-percent tax increase in the City's transient occupancy tax. The proceeds are restricted for use in the City's Creeks Restoration and Water Quality Improvement Program. Measure B was approved by the voters of Santa Barbara County in an election held on November 7, 2000. The tax became effective on January 1, 2001.

**Solid Waste Fund**- To account for franchise fees paid by trash haulers used for funding recycling programs in the City .

**Transportation Development Fund** - To account for the receipt and disbursement of the City's share of gasoline sales tax pursuant to the Transportation Development Act of 1971. These funds are restricted for use in support of alternative transportation, including sidewalks and bikeways.

**HOME Fund** - To account for the receipt and disbursement of the City's Federal HOME grant funds.

**County Library** - To account for funds received and expended for library services on behalf of the County (non-City) residents.

**Measure D Road Maintenance Fund** - To account for funds received from a one-half cent sales tax levied Countywide pursuant to Measure D. This measure was approved by the voters of Santa Barbara County in an election held on November 7, 1989, and became effective on April 1, 1990. The proceeds are restricted to transportation uses.

**General Capital Improvements Fund** - To account for all capital projects financed by the General Fund.

**Creeks Restoration Capital Improvement Fund** - To account for creeks restoration capital improvements funded by Measure B.

**Police – Supplemental Law Enforcement Fund** - To account for State voter-approved grant funds (AB 3229) restricted to public safety and law enforcement.

**Police – Local Law Enforcement Block Grant Fund** - To account for Federal grants funds received for local law enforcement activities.

**Police - Asset Forfeiture Fund** - To account for assets confiscated by police special operations. These funds are restricted to use in support of police operations.

**Miscellaneous Grants** - To account for resources received from various granting agencies.

**FEMA Reimbursement Storm Fund** - To account for costs incurred as a result of the two federally declared disasters in January and March, 1995, and the federally declared storm of February, 1998.

**1993 Redevelopment Agency Tax Allocation Bonds** - To accumulate funds for the payment of the 1993 Tax Allocation Bonds.

**1995 Redevelopment Agency Refunding Tax Allocation Bonds** - To accumulate funds for the payment of the 1995 Refunding Tax Allocation Bonds.

**2002 Municipal Refunding Certificates of Participation** - To accumulate funds for the payment of the General Fund's portion of the 2002 municipal improvement refunding certificates of participation.

**CITY OF SANTA BARBARA  
COMBINING BALANCE SHEET  
NONMAJOR - GOVERNMENTAL FUNDS  
June 30, 2004  
(continued on next two pages)**

	Budgeted Funds						
	Traffic Safety	Gas Tax	Creek Restoration/ Water Quality	Solid Waste Fund	Transpor- tation Develop.	HOME Program	County Library
<b>Assets</b>							
Cash and investments	\$ -	\$ -	\$ 2,210,694	\$ 350,959	\$ 188,492	\$ 246,779	\$ 1,368,723
Accounts receivable	-	157,099	194,252	3,678	-	-	-
Loans receivable	-	-	-	-	-	3,107,373	-
Due from other agencies	-	-	-	-	524	-	-
Cash and investments with fiscal agents	-	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 157,099</u>	<u>\$ 2,404,946</u>	<u>\$ 354,637</u>	<u>\$ 189,016</u>	<u>\$ 3,354,152</u>	<u>\$ 1,368,723</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable	\$ -	\$ -	\$ 23,269	\$ 8,040	\$ -	\$ -	\$ 87,098
Other accrued liabilities	-	-	21,846	18,883	-	4,483	55,253
Interfund payables	-	157,099	-	-	-	-	-
Deposits	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	3,349,669	-
Total liabilities	<u>-</u>	<u>157,099</u>	<u>45,115</u>	<u>26,923</u>	<u>-</u>	<u>3,354,152</u>	<u>142,351</u>
<b>Fund balances:</b>							
Reserved:							
Encumbrances	-	-	445,126	131,811	-	-	18,130
Due from other agencies	-	-	-	-	524	-	-
Public Safety	-	-	-	-	-	-	-
Street improvements	-	-	-	-	188,492	-	-
Library	-	-	-	-	-	-	1,208,242
Community development	-	-	1,914,705	-	-	-	-
Future projects	-	-	-	105,339	-	-	-
Debt service	-	-	-	-	-	-	-
Unreserved	-	-	-	90,564	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>2,359,831</u>	<u>327,714</u>	<u>189,016</u>	<u>-</u>	<u>1,226,372</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 157,099</u>	<u>\$ 2,404,946</u>	<u>\$ 354,637</u>	<u>\$ 189,016</u>	<u>\$ 3,354,152</u>	<u>\$ 1,368,723</u>

**CITY OF SANTA BARBARA  
COMBINING BALANCE SHEET  
NONMAJOR - GOVERNMENTAL FUNDS  
June 30, 2004**

(continued from previous page and continues to next page)

	Budgeted Funds				Unbudgeted Funds		
	Measure D Road Maintenance	General Capital Improvements	Creeks Restoration Capital Improvement	Police - Supplemental Law Enforcement	Police - Local Law Enforcement Block Grant	Police - Asset Forfeiture	Miscellaneous Grants
<b>Assets</b>							
Cash and investments	\$ 5,186,041	\$ 3,315,586	\$ 1,418,324	\$ 5,682	\$ 82,473	\$ 647,079	\$ 237,263
Accounts receivable	295,256	-	-	-	-	335	481
Loans receivable	-	-	-	-	-	-	-
Due from other agencies	8,849	-	-	-	-	-	49,768
Cash and investments with fiscal agents	-	-	-	-	-	-	-
Total assets	<u>\$ 5,490,146</u>	<u>\$ 3,315,586</u>	<u>\$ 1,418,324</u>	<u>\$ 5,682</u>	<u>\$ 82,473</u>	<u>\$ 647,414</u>	<u>\$ 287,512</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 441,651	\$ 13,339	\$ -	\$ -	\$ 4,316	\$ 5,189	\$ 11,988
Other accrued liabilities	115,669	-	56,634	5,637	-	35,100	34,324
Interfund payables	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	253,564	-
Deferred revenue	-	-	-	-	-	-	-
Total liabilities	<u>557,320</u>	<u>13,339</u>	<u>56,634</u>	<u>5,637</u>	<u>4,316</u>	<u>293,853</u>	<u>46,312</u>
<b>Fund balances:</b>							
Reserved:							
Encumbrances	1,346,622	761,190	129,836	-	21,356	11,703	-
Due from other agencies	8,849	-	-	-	-	-	49,768
Public Safety	-	-	-	45	56,801	341,858	52,010
Street improvements	3,577,355	-	-	-	-	-	-
Library	-	-	-	-	-	-	-
Community development	-	-	1,142,831	-	-	-	-
Future projects	-	2,001,064	-	-	-	-	139,422
Debt service	-	-	-	-	-	-	-
Unreserved	-	539,993	89,023	-	-	-	-
Total fund balances	<u>4,932,826</u>	<u>3,302,247</u>	<u>1,361,690</u>	<u>45</u>	<u>78,157</u>	<u>353,561</u>	<u>241,200</u>
Total liabilities and fund balances	<u>\$ 5,490,146</u>	<u>\$ 3,315,586</u>	<u>\$ 1,418,324</u>	<u>\$ 5,682</u>	<u>\$ 82,473</u>	<u>\$ 647,414</u>	<u>\$ 287,512</u>

**CITY OF SANTA BARBARA  
COMBINING BALANCE SHEET  
NONMAJOR - GOVERNMENTAL FUNDS  
June 30, 2004  
(continued from previous two pages)**

	Unbudgeted Funds				Total Nonmajor Governmental Funds
	FEMA Reimbursement Storm Fund	1993 Tax Allocation Bonds	1995 Refunding Tax Allocation Bonds	2002 Municipal Refunding Certificates	
<b><u>Assets</u></b>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 15,258,095
Accounts receivable	-	-	-	-	651,101
Loans receivable	-	-	-	-	3,107,373
Due from other agencies	446,077	-	-	-	505,218
Cash and investments with fiscal agents	-	974	686,094	561,148	1,248,216
Total assets	<u>\$ 446,077</u>	<u>\$ 974</u>	<u>\$ 686,094</u>	<u>\$ 561,148</u>	<u>\$ 20,770,003</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 594,890
Other accrued liabilities	-	-	-	-	347,829
Interfund payables	1,480,791	-	-	-	1,637,890
Deposits	-	-	-	-	253,564
Deferred revenue	-	-	-	-	3,349,669
Total liabilities	<u>1,480,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,183,842</u>
<b>Fund balances:</b>					
Reserved:					
Encumbrances	-	-	-	-	2,865,774
Due from other agencies	446,077	-	-	-	505,218
Public Safety	-	-	-	-	450,714
Street improvements	-	-	-	-	3,765,847
Library	-	-	-	-	1,208,242
Community development	(1,480,791)	-	-	-	1,576,745
Future projects	-	-	-	-	2,245,825
Debt service	-	974	686,094	561,148	1,248,216
Unreserved	-	-	-	-	719,580
Total fund balances	<u>(1,034,714)</u>	<u>974</u>	<u>686,094</u>	<u>561,148</u>	<u>14,586,161</u>
Total liabilities and fund balances	<u>\$ 446,077</u>	<u>\$ 974</u>	<u>\$ 686,094</u>	<u>\$ 561,148</u>	<u>\$ 20,770,003</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR - GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2004**  
**(continued on next two pages)**

	Budgeted Funds						
	Traffic Safety	Gas Tax	Creek Restoration/ Water Quality	Solid Waste Fund	Transpor- tation Develop.	HOME Program	County Library
Revenues:							
Taxes	\$ -	\$ 1,678,700	\$ 2,073,155	\$ 327,393	\$ 63,367	\$ -	\$ -
Intergovernmental	-	-	40,000	505,717	-	687,843	1,064,535
Fines and forfeitures	518,714	-	-	-	-	-	161,606
Use of money and property	-	-	25,572	-	1,409	-	-
Other revenues	-	-	-	60,000	-	95,438	66,497
Total revenues	<u>518,714</u>	<u>1,678,700</u>	<u>2,138,727</u>	<u>893,110</u>	<u>64,776</u>	<u>783,281</u>	<u>1,292,638</u>
Expenditures:							
Current:							
Public safety	32,760	-	-	-	-	-	-
Public works	-	-	885,759	694,110	52,128	-	-
Community services	-	-	-	-	-	-	1,604,446
Community development	-	-	-	-	-	783,281	-
Capital Outlay:							
Capital improvements	-	-	-	-	-	-	-
Debt Service:							
Principle retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	<u>32,760</u>	<u>-</u>	<u>885,759</u>	<u>694,110</u>	<u>52,128</u>	<u>783,281</u>	<u>1,604,446</u>
Excess (deficiency) of revenues over (under) expenditures	<u>485,954</u>	<u>1,678,700</u>	<u>1,252,968</u>	<u>199,000</u>	<u>12,648</u>	<u>-</u>	<u>(311,808)</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	290,480
Transfers out	(485,954)	(1,678,700)	(545,730)	-	-	-	-
Total other financing sources (uses)	<u>(485,954)</u>	<u>(1,678,700)</u>	<u>(545,730)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,480</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	-	707,238	199,000	12,648	-	(21,328)
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>1,652,593</u>	<u>128,714</u>	<u>176,368</u>	<u>-</u>	<u>1,247,700</u>
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,359,831</u>	<u>\$ 327,714</u>	<u>\$ 189,016</u>	<u>\$ -</u>	<u>\$ 1,226,372</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR - GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2004**  
(continued from previous page and continues on next page)

	Budgeted Funds					Unbudgeted Funds	
	Measure D	General	Creeks	Police -	Police -	Police -	Miscellaneous
	Road	Capital	Restoration	Supplemental	Local Law	Asset	
Maintenance	Improvements	Capital	Law	Enforcement	Forfeiture	Grants	
<b>Revenues:</b>							
Taxes	\$ 4,558,143	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	166,658	443,230	135,233	85,444	94,652	512,744
Fines and forfeitures	-	-	-	-	-	-	-
Use of money and property	45,722	-	-	-	1,919	4,176	-
Other revenues	-	-	-	-	-	-	526,987
<b>Total revenues</b>	<b>4,603,865</b>	<b>166,658</b>	<b>443,230</b>	<b>135,233</b>	<b>87,363</b>	<b>98,828</b>	<b>1,039,732</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Public safety	-	-	-	135,233	130,591	97,857	404,609
Public works	4,913,745	-	-	-	-	-	64,567
Community services	-	-	875,625	-	-	-	521,548
Community development	-	-	-	-	-	-	85,771
<b>Capital Outlay:</b>							
Capital improvements	-	1,243,660	-	-	-	-	-
<b>Debt Service:</b>							
Principle retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>4,913,745</b>	<b>1,243,660</b>	<b>875,625</b>	<b>135,233</b>	<b>130,591</b>	<b>97,857</b>	<b>1,076,495</b>
Excess (deficiency) of revenues over (under) expenditures	(309,880)	(1,077,002)	(432,395)	-	(43,228)	971	(36,763)
<b>Other financing sources (uses):</b>							
Transfers in	-	1,015,152	525,000	-	9,494	99,998	47,385
Transfers out	-	-	-	-	-	(9,494)	(99,998)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>1,015,152</b>	<b>525,000</b>	<b>-</b>	<b>9,494</b>	<b>90,504</b>	<b>(52,613)</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(309,880)	(61,850)	92,605	-	(33,734)	91,475	(89,376)
<b>Fund balances,</b>							
beginning of fiscal year	5,242,706	3,364,097	1,269,085	45	111,891	262,086	330,576
<b>Fund balances, end of fiscal year</b>	<b>\$ 4,932,826</b>	<b>\$ 3,302,247</b>	<b>\$ 1,361,690</b>	<b>\$ 45</b>	<b>\$ 78,157</b>	<b>\$ 353,561</b>	<b>\$ 241,200</b>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR - GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2004**  
**(continued from previous two pages)**

	Unbudgeted Funds				Total Nonmajor Governmental Funds
	FEMA Reim- bursement Storm Fund	1993 Tax Allocation Bonds	1995 Re- funding Tax Allocation Bonds	2002 Municipal Refunding Certificates	
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 8,700,758
Intergovernmental	304,017	-	-	-	4,040,074
Fines and forfeitures	-	-	-	-	680,320
Use of money and property	-	4,439	11,721	29,090	124,048
Other revenues	-	-	-	-	748,922
Total revenues	<u>304,017</u>	<u>4,439</u>	<u>11,721</u>	<u>29,090</u>	<u>14,294,122</u>
Expenditures:					
Current:					
Public safety	-	-	-	-	801,050
Public works	322,645	-	-	-	6,932,954
Community services	-	-	-	-	3,001,619
Community development	-	-	-	-	869,052
Capital Outlay:					
Capital improvements	-	-	-	-	1,243,660
Debt Service:					
Principle retirement	-	-	3,125,000	204,600	3,329,600
Interest	-	226,511	816,488	149,773	1,192,772
Total expenditures	<u>322,645</u>	<u>226,511</u>	<u>3,941,488</u>	<u>354,373</u>	<u>17,370,707</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,628)</u>	<u>(222,072)</u>	<u>(3,929,767)</u>	<u>(325,283)</u>	<u>(3,076,585)</u>
Other financing sources (uses):					
Transfers in	-	-	1,313,538	311,136	3,612,183
Transfers out	-	(1,242,039)	-	-	(4,061,915)
Total other financing sources (uses)	<u>-</u>	<u>(1,242,039)</u>	<u>1,313,538</u>	<u>311,136</u>	<u>(449,732)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(18,628)	(1,464,111)	(2,616,229)	(14,147)	(3,526,317)
Fund balances, beginning of fiscal year	<u>(1,016,086)</u>	<u>1,465,085</u>	<u>3,302,323</u>	<u>575,295</u>	<u>18,112,478</u>
Fund balances, end of fiscal year	<u>\$ (1,034,714)</u>	<u>\$ 974</u>	<u>\$ 686,094</u>	<u>\$ 561,148</u>	<u>\$ 14,586,161</u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**TRAFFIC SAFETY**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Fines and forfeitures	\$ 525,000	\$ 525,000	\$ 518,714	\$ (6,286)
Expenditures:				
Current:				
Protection of persons and property	25,000	25,000	32,760	(7,760)
Excess (deficiency) of revenues over (under) expenditures	500,000	500,000	485,954	(14,046)
Other financing sources (uses):				
Transfers out	(500,000)	(500,000)	(485,954)	14,046
Fund balances, beginning of fiscal year	-	-	-	-
Fund balances, end of fiscal year	\$ -	\$ -	\$ -	\$ -

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**GAS TAX**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 1,700,000	\$ 1,700,000	\$ 1,678,700	\$ (21,300)
Other financing sources (uses):				
Transfers out	<u>(1,700,000)</u>	<u>(1,700,000)</u>	<u>(1,678,700)</u>	<u>21,300</u>
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of fiscal year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**CREEKS RESTORATION/WATER QUALITY**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,054,780	\$ 2,054,780	\$ 2,073,155	\$ 18,375
Intergovernmental	-	40,000	40,000	-
Use of money and property	50,000	40,000	25,572	(14,428)
Total revenues	2,104,780	2,134,780	2,138,727	3,947
Expenditures:				
Current:				
Public works	1,429,780	1,693,090	885,759	807,331
Excess (deficiency) of revenues over (under) expenditures	675,000	441,690	1,252,968	811,278
Other financing sources (uses):				
Transfers out	(675,000)	(675,000)	(545,730)	129,270
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(233,310)	707,238	940,548
Fund balances, beginning of fiscal year	-	1,652,593	1,652,593	-
Fund balances, end of fiscal year	\$ -	\$ 1,419,283	\$ 2,359,831	\$ 940,548

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**SOLID WASTE**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 780,000	\$ 280,000	\$ 327,393	\$ 47,393
Intergovernmental	26,710	703,418	505,717	(197,701)
Other revenues	17,500	17,500	60,000	42,500
Total revenues	<u>824,210</u>	<u>1,000,918</u>	<u>893,110</u>	<u>(107,808)</u>
Expenditures:				
Current:				
Public works	<u>824,210</u>	<u>1,083,608</u>	<u>694,110</u>	<u>389,498</u>
Excess (deficiency) of revenues over (under) expenditures	-	(82,690)	199,000	281,690
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>128,714</u>	<u>128,714</u>
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ (82,690)</u>	<u>\$ 327,714</u>	<u>\$ 410,404</u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**TRANSPORTATION DEVELOPMENT**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 50,000	\$ 50,000	\$ 63,367	\$ 13,367
Use of money and property	5,000	5,000	1,409	(3,591)
Total revenues	55,000	55,000	64,776	9,776
Expenditures:				
Current:				
Public works	55,000	55,000	52,128	2,872
Excess of revenues over expenditures	-	-	12,648	12,648
Fund balances, beginning of fiscal year	-	-	176,368	176,368
Fund balances, end of fiscal year	\$ -	\$ -	\$ 189,016	\$ 189,016

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**HOME PROGRAM**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 809,109	\$ 809,109	\$ 687,843	\$ (121,266)
Program income	9,000	92,194	95,438	3,244
Total revenues	<u>818,109</u>	<u>901,303</u>	<u>783,281</u>	<u>(118,022)</u>
Expenditures:				
Current:				
Community development	<u>818,109</u>	<u>901,303</u>	<u>783,281</u>	<u>118,022</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Fund balances, beginning of fiscal year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**COUNTY LIBRARY**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 1,033,193	\$ 1,033,193	\$ 1,064,535	\$ 31,342
Fines and forfeitures	130,000	130,000	161,606	31,606
Other revenues	65,000	65,000	66,497	1,497
Total revenues	<u>1,228,193</u>	<u>1,228,193</u>	<u>1,292,638</u>	<u>64,445</u>
Expenditures:				
Community services	<u>1,657,428</u>	<u>2,079,108</u>	<u>1,604,446</u>	<u>474,662</u>
Excess (deficiency) of revenues over (under) expenditures	(429,235)	(850,915)	(311,808)	539,107
Other financing sources:				
Transfers in	<u>-</u>	<u>290,480</u>	<u>290,480</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(429,235)	(560,435)	(21,328)	539,107
Fund balances, beginning of fiscal year	<u>-</u>	<u>1,247,700</u>	<u>1,247,700</u>	<u>-</u>
Fund balances, end of fiscal year	<u><u>\$ (429,235)</u></u>	<u><u>\$ 687,265</u></u>	<u><u>\$ 1,226,372</u></u>	<u><u>\$ 539,107</u></u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**MEASURE D ROAD MAINTENANCE**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 4,800,000	\$ 4,800,000	\$ 4,558,143	\$ (241,857)
Use of money and property	225,000	225,000	45,722	(179,278)
Total revenues	<u>5,025,000</u>	<u>5,025,000</u>	<u>4,603,865</u>	<u>(421,135)</u>
Expenditures:				
Public works	<u>5,025,000</u>	<u>9,687,248</u>	<u>4,913,745</u>	<u>4,773,503</u>
Excess (deficiency) of revenues over (under) expenditures	-	(4,662,248)	(309,880)	4,352,368
Fund balances, beginning of fiscal year	<u>-</u>	<u>5,242,706</u>	<u>5,242,706</u>	<u>-</u>
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ 580,458</u>	<u>\$ 4,932,826</u>	<u>\$ 4,352,368</u>

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**GENERAL CAPITAL IMPROVEMENTS**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ 384,675	\$ 166,658	\$ (218,017)
Other revenues	-	8,000	-	(8,000)
Total revenues	-	392,675	166,658	(226,017)
Expenditures:				
Capital outlay	1,015,150	4,427,619	1,243,660	3,183,959
Excess (deficiency) of revenues over (under) expenditures	(1,015,150)	(4,034,944)	(1,077,002)	2,957,942
Other financing sources:				
Transfers in	1,015,150	1,015,150	1,015,152	2
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(3,019,794)	(61,850)	2,957,944
Fund balances, beginning of fiscal year	-	3,364,097	3,364,097	-
Fund balances, end of fiscal year	\$ -	\$ 344,303	\$ 3,302,247	\$ 2,957,944

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**CREEKS RESTORATION CAPITAL IMPROVEMENTS**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

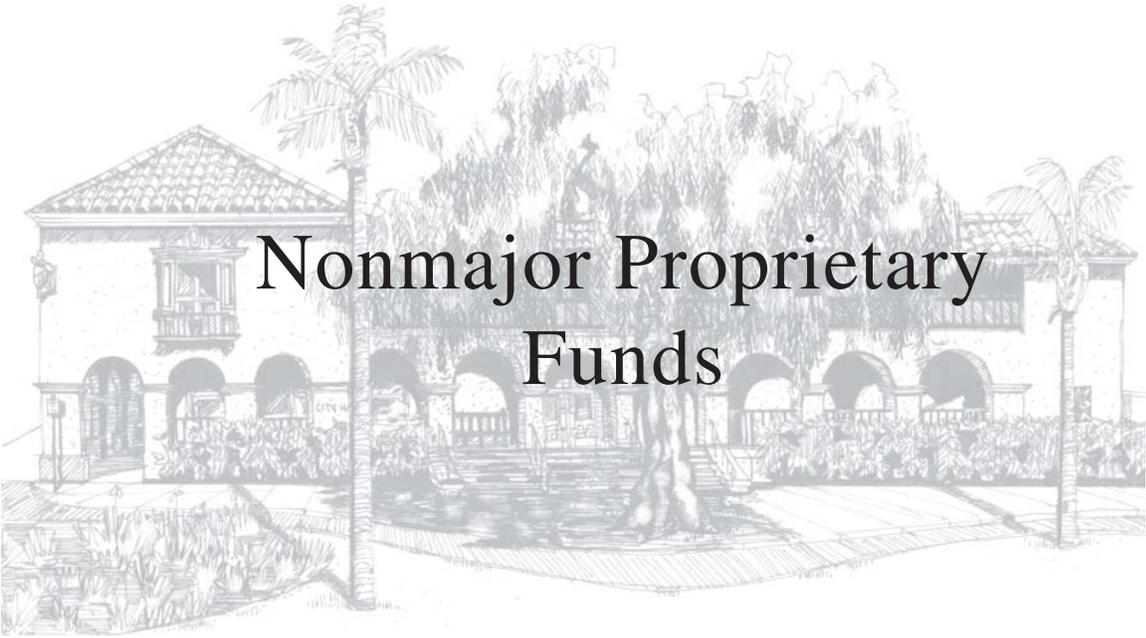
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ 949,573	\$ 443,230	\$ (506,343)
Expenditures:				
Current:				
Community services	525,000	2,654,640	875,625	1,779,015
Excess (deficiency) of revenues over (under) expenditures	(525,000)	(1,705,067)	(432,395)	1,272,672
Other financing sources:				
Transfers in	525,000	525,000	525,000	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(1,180,067)	92,605	1,272,672
Fund balances, beginning of fiscal year	-	1,269,085	1,269,085	-
Fund balances, end of fiscal year	\$ -	\$ 89,018	\$ 1,361,690	\$ 1,272,672

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**POLICE - SUPPLEMENTAL LAW ENFORCEMENT**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 188,398	\$ 188,398	\$ 135,233	\$ (53,165)
Expenditures:				
Current:				
Protection of persons and property	188,398	188,443	135,233	53,210
Excess (deficiency) of revenues over (under) expenditures	-	(45)	-	45
Fund balances, beginning of fiscal year	-	45	45	-
Fund balances, end of fiscal year	\$ -	\$ -	\$ 45	\$ 45

**CITY OF SANTA BARBARA**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR FUNDS**  
**POLICE - LOCAL LAW ENFORCEMENT BLOCK GRANT**  
**BUDGET AND ACTUAL**  
**Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ 85,444	\$ 85,444	\$ -
Use of money and property	-	-	1,919	1,919
Total revenues	<u>-</u>	<u>85,444</u>	<u>87,363</u>	<u>1,919</u>
Expenditures:				
Current:				
Protection of persons and property	-	200,966	130,591	70,375
Excess (deficiency) of revenues over (under) expenditures	-	(115,522)	(43,228)	72,294
Other financing sources:				
Transfers in	-	9,494	9,494	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	-	(106,028)	(33,734)	72,294
Fund balances, beginning of fiscal year	-	111,891	111,891	-
Fund balances, end of fiscal year	<u>\$ -</u>	<u>\$ 5,863</u>	<u>\$ 78,157</u>	<u>\$ 72,294</u>



# Nonmajor Proprietary Funds

## **NONMAJOR PROPRIETARY FUNDS**

**Downtown Parking Fund** - To account for the provision of parking services in the downtown area of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, capital acquisition and construction, financing and related debt service, and billing and collection of fees.

**Golf Course Fund** - To account for the operation of a municipal golf course. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, capital acquisition and construction, financing and related debt service, and billing and collection of fees.

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**June 30, 2004**

	Downtown Parking	Golf Course	Total Nonmajor Proprietary Funds
<b><u>Assets</u></b>			
<b>Current Assets:</b>			
Cash and investments	\$ 7,808,116	\$ 1,211,456	\$ 9,019,572
Accounts receivable, net	6,196	-	6,196
Due from other agencies	7,527	2,750	10,277
Total current assets	<u>7,821,839</u>	<u>1,214,206</u>	<u>9,036,045</u>
<b>Capital Assets:</b>			
Capital Assets:			
Land	4,943,771	342,302	5,286,073
Buildings	3,069,599	1,150,524	4,220,123
Building improvements	-	90,749	90,749
Improvements other than buildings	4,259,364	2,620,530	6,879,894
Equipment	440,851	843,634	1,284,485
Construction in progress	64,253	-	64,253
Less accumulated depreciation	(5,031,512)	(2,215,571)	(7,247,083)
Total capital assets, (net)	<u>7,746,326</u>	<u>2,832,168</u>	<u>10,578,494</u>
<b>Other Assets:</b>			
Deferred charge-loss on defeasance, net	-	149,294	149,294
<b>Total assets</b>	<u>15,568,165</u>	<u>4,195,668</u>	<u>19,763,833</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	92,333	23,323	115,656
Accrued salaries payable	138,562	44,765	183,327
Deposits	26,242	-	26,242
Current portion compensated absences	84,490	41,314	125,804
Current portion long term debt	-	110,500	110,500
Total current liabilities	<u>341,627</u>	<u>219,902</u>	<u>561,529</u>
<b>Non-current liabilities:</b>			
Long-term debt, net of current portion	-	1,808,800	1,808,800
<b>Total liabilities</b>	<u>341,627</u>	<u>2,028,702</u>	<u>2,370,329</u>
<b><u>Net Assets:</u></b>			
Invested in capital assets net of related debt	7,746,326	1,062,162	8,808,488
Unrestricted	7,480,212	1,104,804	8,585,016
<b>Total net assets</b>	<u>\$ 15,226,538</u>	<u>\$ 2,166,966</u>	<u>\$ 17,393,504</u>

**CITY OF SANTA BARBARA**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Downtown Parking	Golf Course	Total Nonmajor Proprietary Funds
<b>Operating Revenues:</b>			
<b>Charges for sales and services:</b>			
Service charges	\$ 4,067,239	\$ 1,768,565	\$ 5,835,804
Leases and rents	-	275,720	275,720
Other revenues	12,587	1,517	14,104
Total revenues	<u>4,079,826</u>	<u>2,045,802</u>	<u>6,125,628</u>
<b>Operating Expenses:</b>			
Salaries, wages and benefits	2,700,808	925,409	3,626,217
Materials, supplies and services	1,552,496	729,607	2,282,103
Depreciation	407,967	169,654	577,621
Total operating expenses	<u>4,661,271</u>	<u>1,824,670</u>	<u>6,485,941</u>
Operating income (loss)	<u>(581,445)</u>	<u>221,132</u>	<u>(360,313)</u>
<b>Non-operating revenues (expenses):</b>			
Taxes	764,445	-	764,445
Investment income	61,362	9,373	70,735
Interest expense	-	(45,173)	(45,173)
Total non-operating revenues (expenses)	<u>825,807</u>	<u>(35,800)</u>	<u>790,007</u>
Change in net assets	244,362	185,332	429,694
Net assets, beginning of fiscal year	14,982,176	1,981,634	16,963,810
Net assets, end of fiscal year	<u>\$ 15,226,538</u>	<u>\$ 2,166,966</u>	<u>\$ 17,393,504</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**Fiscal Year Ended June 30, 2004**

	<u>Downtown Parking</u>	<u>Golf Course</u>	<u>Total Nonmajor Proprietary Funds</u>
<b>Cash flows from operating activities:</b>			
Cash received from services	\$ -	\$ 1,768,565	\$ 1,768,565
Cash received from rents and leases	4,069,022	275,720	4,344,742
Cash payments for goods and services	(1,506,416)	(744,559)	(2,250,975)
Cash payments to employees for services	(2,634,569)	(895,516)	(3,530,085)
Cash returned for deposits	1,194	-	1,194
Other operating receipts	15,096	2,432	17,528
Net cash provided (used) by operating activities	<u>(55,673)</u>	<u>406,642</u>	<u>350,969</u>
<b>Cash flows from noncapital financing activities</b>			
Cash received from taxes and assessments	764,445	-	764,445
Net cash provided (used) by non-capital financing activities	<u>764,445</u>	<u>-</u>	<u>764,445</u>
<b>Cash flows from capital and related financing activities:</b>			
Payments on long term debt	-	(105,400)	(105,400)
Acquisition of capital assets	(21,683)	(49,872)	(71,555)
Interest paid on debt	-	(67,509)	(67,509)
Net cash provided (used) by capital and related financing activities	<u>(21,683)</u>	<u>(222,781)</u>	<u>(244,464)</u>
<b>Cash flows from investing activities:</b>			
Cash received on investments	61,362	9,373	70,735
Net increase in cash and cash equivalents	<u>748,451</u>	<u>193,234</u>	<u>941,685</u>
Cash and cash equivalents, beginning of fiscal year	7,059,665	1,018,222	8,077,887
Cash and cash equivalents, end of fiscal year	<u>\$ 7,808,116</u>	<u>\$ 1,211,456</u>	<u>\$ 9,019,572</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (581,445)	\$ 221,132	\$ (360,313)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	407,967	169,654	577,621
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	1,783	-	1,783
(Increase) decrease in due from other agencies	2,509	916	3,425
Increase (decrease) in accounts payable	46,080	(14,953)	31,127
Increase (decrease) in accrued salaries payable	67,997	25,582	93,579
Increase (decrease) in accrued compensated absences	(1,758)	4,311	2,553
Increase (decrease) in deposits	1,194	-	1,194
Net cash provided (used) by operating activities	<u>\$ (55,673)</u>	<u>\$ 406,642</u>	<u>\$ 350,969</u>



# Internal Service Funds

## **INTERNAL SERVICE FUNDS**

**Intra-City Service Fund** – To account for the costs of operating an automotive maintenance facility and ensuring that vehicles used by all City departments are properly maintained. This fund also accounts for City-wide building maintenance operations, custodial services, and communications.

**Duplicating Services Fund** - To account for the operations of the City print shop.

**Self Insurance Fund** - To account for the cost of providing workers' compensation, unemployment, liability and employee health insurance coverage on a City-wide basis.

**Information Systems Fund** - To account for the cost of providing computer equipment and service to all departments and funds within the City.

**Vehicle Capital Fund** - To account for the costs of purchasing new vehicles for use within the City-wide organization.

**CITY OF SANTA BARBARA  
COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
June 30, 2004**

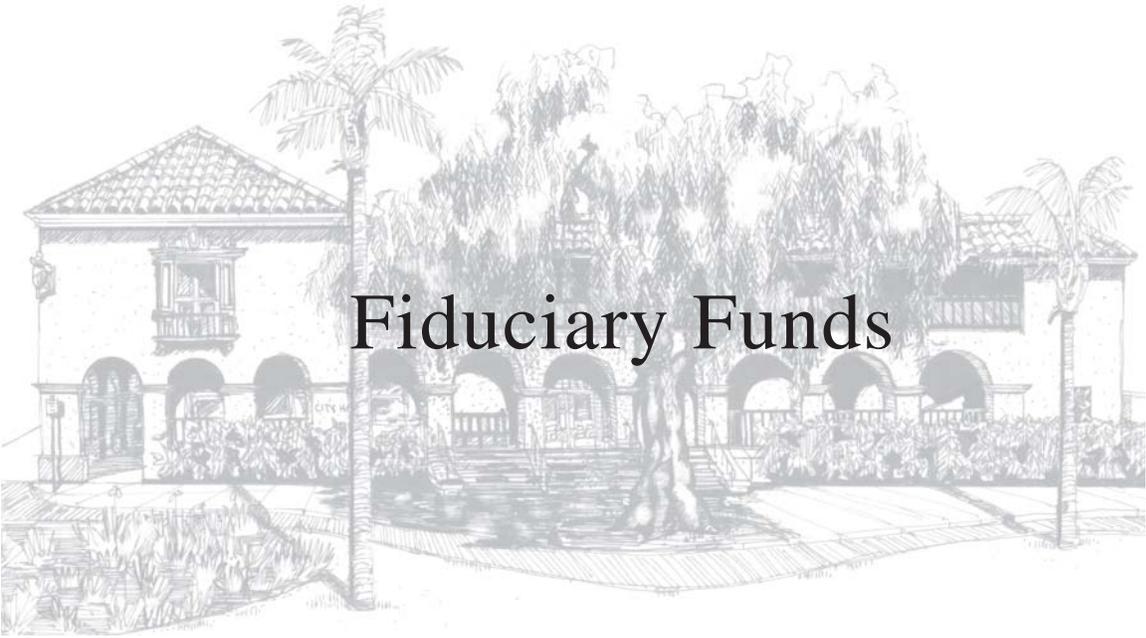
<u>Assets</u>	Intra-City Service	Duplicating Services	Self- Insurance	Information Systems	Vehicle Capital	Total
<b>Current Assets:</b>						
Cash and investments	\$ 1,726,318	\$ 42,646	\$ 7,039,095	\$ 313,426	\$ 2,441,166	\$ 11,562,651
Accounts receivable	1,039	-	-	-	-	1,039
Due from other agencies	-	-	28,132	-	-	28,132
Inventory, at cost	847,601	34,476	-	-	-	882,077
Prepaid assets	-	-	75,713	-	-	75,713
Total current assets	<u>2,574,958</u>	<u>77,122</u>	<u>7,142,940</u>	<u>313,426</u>	<u>2,441,166</u>	<u>12,549,612</u>
<b>Capital assets:</b>						
Buildings	105,889	-	-	-	-	105,889
Equipment	267,888	197,661	-	-	15,499,483	15,965,032
Less accumulated depreciation	(92,732)	(159,161)	-	-	(10,783,729)	(11,035,622)
Total capital assets, net	<u>281,045</u>	<u>38,500</u>	<u>-</u>	<u>-</u>	<u>4,715,754</u>	<u>5,035,299</u>
<b>Total assets</b>	<u>\$ 2,856,003</u>	<u>\$ 115,622</u>	<u>\$ 7,142,940</u>	<u>\$ 313,426</u>	<u>\$ 7,156,920</u>	<u>\$ 17,584,911</u>
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Accounts payable	177,452	16	9,365	2,289	131,142	320,264
Accrued salaries payable	167,642	8,948	21,690	57,392	1,405	257,077
Current portion compensated absences liability	199,269	8,762	20,313	35,186	-	263,530
Current portion claims liability	-	-	3,937,540	-	-	3,937,540
Total current liabilities	<u>544,363</u>	<u>17,726</u>	<u>3,988,908</u>	<u>94,867</u>	<u>132,547</u>	<u>4,778,411</u>
<b>Non-current Liabilities:</b>						
Estimated claims liability, net of current portion	-	-	6,704,460	-	-	6,704,460
<b>Total liabilities</b>	<u>544,363</u>	<u>17,726</u>	<u>10,693,368</u>	<u>94,867</u>	<u>132,547</u>	<u>11,482,871</u>
<b>Net Assets</b>						
Invested in net assets, net of related debt	281,045	38,500	-	-	4,715,754	5,035,299
Unrestricted	2,030,595	59,396	(3,550,428)	218,559	2,308,619	1,066,741
<b>Total net assets</b>	<u>\$ 2,311,640</u>	<u>\$ 97,896</u>	<u>\$ (3,550,428)</u>	<u>\$ 218,559</u>	<u>\$ 7,024,373</u>	<u>\$ 6,102,040</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Intra-City Service	Duplicating Services	Self- Insurance	Information Systems	Vehicle Capital	Total
<b>Operating Revenues:</b>						
<b>Charges for sales and services:</b>						
Service charges	\$ 6,367,254	\$ 334,327	\$ 6,146,120	\$ 1,746,330	\$ 1,427,675	\$ 16,021,706
Other revenues	127,778	-	1,450,631	41	7,466	1,585,916
Total operating revenues	<u>6,495,032</u>	<u>334,327</u>	<u>7,596,751</u>	<u>1,746,371</u>	<u>1,435,141</u>	<u>17,607,622</u>
<b>Operating Expenses:</b>						
Salaries, wages and benefits	3,612,399	178,000	416,130	1,140,644	1,405	5,348,578
Materials, supplies and services	3,138,844	186,598	5,381,336	537,168	5,314	9,249,260
Depreciation	9,344	12,833	-	-	1,336,598	1,358,775
Other expenses	1,328	-	-	-	14,455	15,783
Total operating expenses	<u>6,761,915</u>	<u>377,431</u>	<u>5,797,466</u>	<u>1,677,812</u>	<u>1,357,772</u>	<u>15,972,396</u>
Operating income (loss)	(266,883)	(43,104)	1,799,285	68,559	77,369	1,635,226
<b>Non-operating Revenues and Expenses:</b>						
Investment income	-	-	47,901	-	-	47,901
Income (loss) before transfers	(266,883)	(43,104)	1,847,186	68,559	77,369	1,683,127
Transfers In	-	-	-	150,000	-	150,000
Change in net assets	(266,883)	(43,104)	1,847,186	218,559	77,369	1,833,127
Net assets, beginning of fiscal year	<u>2,578,523</u>	<u>141,000</u>	<u>(5,397,614)</u>	<u>-</u>	<u>6,947,004</u>	<u>4,268,913</u>
Net assets, end of fiscal year	<u>\$ 2,311,640</u>	<u>\$ 97,896</u>	<u>\$ (3,550,428)</u>	<u>\$ 218,559</u>	<u>\$ 7,024,373</u>	<u>\$ 6,102,040</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Intra-City Service	Duplicating Services	Self- Insurance	Information Systems	Vehicle Capital	Total
<b>Cash flow from operating activities:</b>						
Cash received from services	\$ 6,385,807	\$ 334,327	\$ 6,146,120	\$ 1,746,330	\$ 1,427,675	\$ 16,040,259
Cash payments for goods and services	(3,105,613)	(200,309)	(4,056,211)	(534,879)	125,828	(7,771,184)
Cash payments to employees for services	(3,424,635)	(171,594)	(397,392)	(1,048,066)	-	(5,041,687)
Other operating receipts	127,778	-	1,450,631	41	7,466	1,585,916
Other operating disbursements	-	-	-	-	(14,455)	(14,455)
Net cash provided (used) by operating activities	<u>(16,663)</u>	<u>(37,576)</u>	<u>3,143,148</u>	<u>163,426</u>	<u>1,546,514</u>	<u>4,798,849</u>
<b>Cash flows from non-capital financing activities:</b>						
Transfers from other funds	-	-	-	150,000	-	150,000
Received from other agencies	-	-	9,374	-	-	9,374
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>-</u>	<u>9,374</u>	<u>150,000</u>	<u>-</u>	<u>159,374</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from capital asset transfer	(2,148,147)	-	-	-	1,327,057	(821,090)
Acquisition of capital assets	(267,888)	-	-	-	(432,405)	(700,293)
Net cash provided (used) by capital and related financing activities	<u>(2,416,035)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>894,652</u>	<u>(1,521,383)</u>
<b>Cash flows from investing activities:</b>						
Cash received on investments	-	-	47,901	-	-	47,901
Net increase (decrease) in cash and cash equivalents	(2,432,698)	(37,576)	3,200,423	313,426	2,441,166	3,484,741
Cash and cash equivalents, beginning of fiscal year	4,159,016	80,222	3,838,672	-	-	8,077,910
Cash and cash equivalents, end of fiscal year	<u>\$ 1,726,318</u>	<u>\$ 42,646</u>	<u>\$ 7,039,095</u>	<u>\$ 313,426</u>	<u>\$ 2,441,166</u>	<u>\$ 11,562,651</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (266,883)	\$ (43,104)	\$ 1,799,285	\$ 68,559	\$ 77,369	\$ 1,635,226
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	9,344	12,833	-	-	1,336,598	1,358,775
Changes in operating assets and liabilities:						
(Increase) decrease in accounts receivable	18,553	-	-	-	-	18,553
(Increase) decrease in inventories	88,979	(7,261)	-	-	-	81,718
(Increase) decrease in prepaid assets	-	-	1,420,509	-	-	1,420,509
Increase (decrease) in accounts payable	(54,420)	(6,450)	(95,384)	2,289	131,142	(22,823)
Increase (decrease) in accrued salaries payable	118,626	5,474	16,474	57,392	1,405	199,371
Increase (decrease) in accrued compensated absences	69,138	932	2,264	35,186	-	107,520
Net cash provided by operating activities	<u>\$ (16,663)</u>	<u>\$ (37,576)</u>	<u>\$ 3,143,148</u>	<u>\$ 163,426</u>	<u>\$ 1,546,514</u>	<u>\$ 4,798,849</u>



# Fiduciary Funds

# **FIDUCIARY FUNDS**

## **PENSION TRUST FUNDS**

Safety Retirement Fund - To account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 17, 1937 and May 28, 1965.

Service Retirement Fund - To account for the accumulation of resources to be used for retirement benefits for those police and fire employees hired between May 17, 1937 and May 28, 1965, and who were disabled due to job related injuries.

## **PRIVATE PURPOSE TRUST FUNDS**

Library Gifts Fund - To account for gifts and bequests made to the City library. Funds are used for book replacement.

Canine Unit Fund - To account for contributions made for the Police's Canine Unit program.

Russ Morrison Fund - To account for contributions made from the Santa Barbara Athletic Roundtable for the sole purpose of promoting junior golf.

## **AGENCY FUNDS**

California Law Enforcement Telecommunications System Fund - To account for moneys received from various participating public agencies for the purchase of computer equipment for communication with the California Law Enforcement Tracking System (CLETS).

Waste Hauler Fund - To account for the collection and disbursement of utility billings for refuse collection service provided under a franchise agreement.

Revolving Rehabilitation Loan Fund - To account for rehabilitation loans made by the City through the use of various funding sources.

Seismic Safety Assessment Fund - To account for the financial activities of the Seismic Assessment District #1.

**COMBINING STATEMENT OF PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**June 30, 2004**

	Safety Retirement	Service Retirement	Total
<b>Assets</b>			
Cash and short-term investments	\$ 235,478	\$ 1,836	\$ 237,314
Due from other agencies	8,288	-	8,288
Total current assets	243,766	1,836	245,602
Investments, at fair value			
Equity share in city investment pool	-	81,664	81,664
Investment with fiscal agent	-	779,257	779,257
Total investments	-	860,921	860,921
Total assets	243,766	862,757	1,106,523
<b>Liabilities</b>			
Accrued benefits payable	5,133	4,759	9,892
<b>Net assets</b>			
Held in trust for pension benefits	\$ 238,633	\$ 857,998	\$ 1,096,631

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUNDS**  
**Fiscal Year Ended June 30, 2004**

	<u>Safety Retirement</u>	<u>Service Retirement</u>	<u>Total</u>
<b>Additions</b>			
Investment Income:			
Net appreciation (depreciation) in fair value of investments	\$ (7,330)	\$ 25,256	\$ 17,926
Interest	10,781	24,540	35,321
Dividends	-	14,226	14,226
Other	-	9,629	9,629
Total investment income	<u>3,451</u>	<u>73,651</u>	<u>77,102</u>
Less investment expenses:			
Banking, interest and fiscal agent expenses	<u>-</u>	<u>(12,660)</u>	<u>(12,660)</u>
Net investment income	<u>3,451</u>	<u>60,991</u>	<u>64,442</u>
<b>Deductions</b>			
Benefits	<u>177,596</u>	<u>170,798</u>	<u>348,394</u>
Total deductions	<u>177,596</u>	<u>170,798</u>	<u>348,394</u>
Net decrease	(174,145)	(109,807)	(283,952)
Net assets held in trust for pension benefits:			
Beginning of fiscal year	<u>412,778</u>	<u>967,805</u>	<u>1,380,583</u>
End of fiscal year	<u>\$ 238,633</u>	<u>\$ 857,998</u>	<u>\$ 1,096,631</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**  
**June 30, 2004**

	<u>Library Gifts</u>	<u>Canine Unit</u>	<u>Russ Morrison Trust</u>	<u>Total</u>
<b>Assets</b>				
Cash and investments	\$ 712,357	\$ 67,421	\$ -	\$ 779,778
Accounts receivable			1,538	1,538
	<u>712,357</u>	<u>67,421</u>	<u>1,538</u>	<u>781,316</u>
<b>Liabilities</b>				
Accounts payable	-	421	-	421
	<u>-</u>	<u>421</u>	<u>-</u>	<u>421</u>
<b>Net Assets</b>				
Held in trust	<u>\$ 712,357</u>	<u>\$ 67,000</u>	<u>\$ 1,538</u>	<u>\$ 780,895</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**  
**Fiscal Year Ended June 30, 2004**

	<u>Library Gifts</u>	<u>Canine Unit</u>	<u>Russ Morrison Trust</u>	<u>Total</u>
<b>Additions</b>				
Use of money and property	\$ 17,725	\$ 1,111	\$ 564	\$ 19,400
Contributions	93,903	-	15,156	109,059
Total additions	<u>111,628</u>	<u>1,111</u>	<u>15,720</u>	<u>128,459</u>
<b>Deductions</b>				
Operating transfers out	691,954	-	-	691,954
Community services	-	10,647	58,821	69,468
Total deductions	<u>691,954</u>	<u>10,647</u>	<u>58,821</u>	<u>761,422</u>
Net (decrease)	(580,326)	(9,536)	(43,101)	(632,963)
Net assets, beginning of fiscal year	1,292,683	76,536	44,639	1,413,858
Net assets, end of fiscal year	<u>\$ 712,357</u>	<u>\$ 67,000</u>	<u>\$ 1,538</u>	<u>\$ 780,895</u>

**CITY OF SANTA BARBARA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**Fiscal Year Ended June 30, 2004**

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>CALIFORNIA LAW ENFORCEMENT TELECOMMUNICATIONS SYSTEM:</b>				
Assets:				
Cash and investments	\$ -	\$ 107,111	\$ 107,111	\$ -
Accounts receivable	55,888	144,991	160,080	40,799
Equipment	102,000	-	18,000	84,000
Total assets	<u>157,888</u>	<u>252,102</u>	<u>285,191</u>	<u>124,799</u>
Liabilities:				
Accounts payable	2,529	50,248	51,623	1,154
Due to General Fund	43,270	-	21,948	21,322
Trust liability	112,089	-	9,766	102,323
Total liabilities	<u>\$ 157,888</u>	<u>\$ 50,248</u>	<u>\$ 83,337</u>	<u>\$ 124,799</u>
<b>WASTE HAULER TRUST:</b>				
Assets:				
Cash and investments	\$ 1,058,652	\$ 15,227,804	\$ 15,188,590	\$ 1,097,866
Accounts receivable	944,967	14,225,182	14,174,072	996,077
Total assets	<u>2,003,619</u>	<u>29,452,986</u>	<u>29,362,662</u>	<u>2,093,943</u>
Liabilities:				
Trust liability	2,003,619	15,201,177	15,110,853	2,093,943
Total liabilities	<u>\$ 2,003,619</u>	<u>\$ 15,201,177</u>	<u>\$ 15,110,853</u>	<u>\$ 2,093,943</u>
<b>REVOLVING REHAB LOAN:</b>				
Assets:				
Cash and investments	\$ 673,865	\$ 80,056	\$ 481	\$ 753,440
Accounts receivable	3,005	-	-	3,005
Loans receivable	2,373,490	-	59,388	2,314,102
Total assets	<u>3,050,360</u>	<u>80,056</u>	<u>59,869</u>	<u>3,070,547</u>
Liabilities:				
Accounts payable	1,528	4	-	1,532
Contributions	3,048,832	20,183	-	3,069,015
Total liabilities	<u>\$ 3,050,360</u>	<u>\$ 20,187</u>	<u>\$ -</u>	<u>\$ 3,070,547</u>
<b>SEISMIC SAFETY ASSESSMENT FUND:</b>				
Assets:				
Cash and investments	\$ 82,441	\$ 187,482	\$ 157,441	\$ 112,482
Cash and investments held by fiscal agent	100,539	154,274	162,615	92,198
Total assets	<u>182,980</u>	<u>341,756</u>	<u>320,056</u>	<u>204,680</u>
Liabilities:				
Trust liability	182,980	188,100	166,400	204,680
Total liabilities	<u>\$ 182,980</u>	<u>\$ 188,100</u>	<u>\$ 166,400</u>	<u>\$ 204,680</u>
<b>TOTAL - ALL AGENCY FUNDS:</b>				
Assets:				
Cash and investments	\$ 1,814,958	\$ 15,602,453	\$ 15,453,623	\$ 1,963,788
Accounts receivable	1,003,860	14,370,173	14,334,152	1,039,881
Loans receivable	2,373,490	-	59,388	2,314,102
Equipment (net)	102,000	-	18,000	84,000
Cash and investments held by fiscal agent	100,539	154,274	162,615	92,198
Total assets	<u>5,394,847</u>	<u>30,126,900</u>	<u>30,027,778</u>	<u>5,493,969</u>
Liabilities:				
Accounts payable	4,057	50,252	51,623	2,686
Interfund payable	43,270	-	21,948	21,322
Trust liability	2,298,688	15,389,277	15,287,019	2,400,946
Contributions	3,048,832	20,183	-	3,069,015
Total liabilities	<u>\$ 5,394,847</u>	<u>\$ 15,459,712</u>	<u>\$ 15,360,590</u>	<u>\$ 5,493,969</u>



# Capital Assets Used in the Operation of Governmental Funds

**CITY OF SANTA BARBARA  
CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS  
SCHEDULE BY SOURCE  
AS OF JUNE 30, 2004**

	Total
Governmental Funds Capital Assets	
Land	\$ 47,795,017
Construction in progress	7,200,239
Building	18,256,731
Building Improvements	3,084,319
Improvements	32,624,866
Drainage Systems	126,452
Equipment	23,523,774
Infrastructure	2,255,080
Total governmental funds capital assets	\$ 134,866,478
Accumulated Depreciation	
Building	\$ 8,818,741
Building Improvements	2,054,843
Improvements	15,614,554
Drainage Systems	8,430
Equipment	15,964,120
Infrastructure	205,690
	\$ 42,666,378

This schedule presents the capital asset balances related to governmental funds and capital assets of governmental activities reported in the Internal Service funds. Generally, the capital assets of Internal Service funds are included in governmental activities in the Statement of Net Assets.

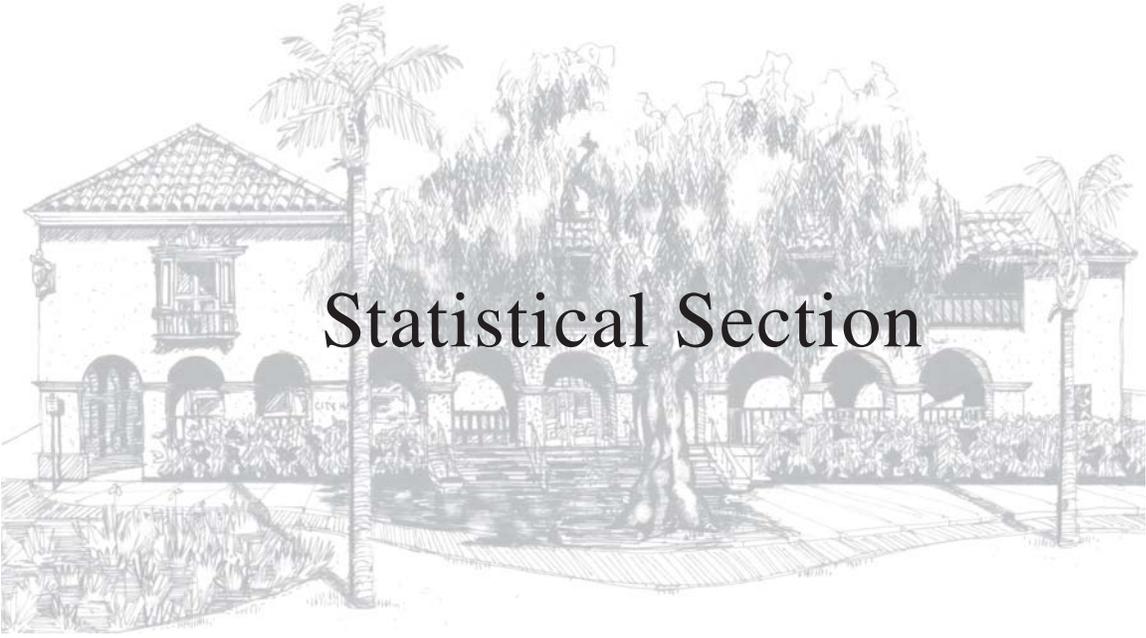
**CITY OF SANTA BARBARA**  
**CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
**AS OF JUNE 30, 2004**

	<u>Land</u>	<u>Construction in Progress</u>	<u>Buildings</u>	<u>Building Improvements</u>	<u>Improvements</u>
Function:					
City Attorney	\$ -	\$ -	\$ -	\$ -	\$ -
City Administrator's Office	1,473,424	-	158,716	-	-
Administrative Services	-	57,724	-	-	-
Finance	-	-	-	170,589	-
Public Safety	558,158	110,489	3,595,496	-	146,828
Public Works	-	2,607,585	1,431,368	125,446	2,259,150
Community Services	6,891,746	767,825	9,031,387	2,788,284	5,238,096
Community Development	38,871,689	3,656,616	4,039,764	-	24,980,792
Total governmental funds capital assets	<u>\$ 47,795,017</u>	<u>\$ 7,200,239</u>	<u>\$ 18,256,731</u>	<u>\$ 3,084,319</u>	<u>\$ 32,624,866</u>

<u>Drainage Systems</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
\$ -	\$ 32,883	\$ -	\$ 32,883
-	1,771,005	-	3,403,145
-	1,532,635	-	1,590,359
-	257,822	-	428,411
-	1,792,717	-	6,203,688
126,452	17,038,848	330,294	23,919,143
-	988,824	-	25,706,162
-	109,040	1,924,786	73,582,687
<u>\$ 126,452</u>	<u>\$ 23,523,774</u>	<u>\$ 2,255,080</u>	<u>\$ 134,866,478</u>

**CITY OF SANTA BARBARA  
CAPITAL ASSETS USED IN THE OPERATIONS OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
AS OF JUNE 30, 2004**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Function:				
City Attorney	\$ 32,883	\$ -	\$ -	\$ 32,883
City Administrator's Office	3,403,145	-	-	3,403,145
Administrative Services	1,456,732	133,627	-	1,590,359
Finance	428,411	-	-	428,411
Public Safety	6,029,825	173,863	-	6,203,688
Public Works	21,369,914	3,857,219	(1,307,990)	23,919,143
Community Services	24,625,925	1,264,114	(183,877)	25,706,162
Community Development	71,721,346	2,039,511	(178,170)	73,582,687
Total governmental funds capital assets	<u>\$ 129,068,181</u>	<u>\$ 7,468,334</u>	<u>\$ (1,670,037)</u>	<u>\$ 134,866,478</u>



# Statistical Section

**TABLE 1**  
**CITY OF SANTA BARBARA**  
**MISCELLANEOUS STATISTICS**  
**June 30, 2004**  
**(Unaudited)**

<b>Date of incorporation</b>	August 26, 1850
<b>Form of Government</b>	Council-Administrator
<b>Area</b>	43.09 square miles (21.09 land, 22 water)
<b>Miles of streets</b>	280
<b>Police protection:</b>	
Number of stations	1
Number of police officers and other sworn personnel	159
<b>Fire protection:</b>	
Number of stations	8
Number of firefighters and officers	99
<b>Municipal Water Department:</b>	
Number of water services - active	25,653
Gallons of potable water treated and distributed a year	3,948,393,398
Gallons of reclaimed water treated and distributed a year	223,518,557
Reservoirs	13
Pump stations	12
Treatment plants	3
Wells	8
Reclamation facility	1
<b>Municipal Wastewater Department:</b>	
Number of services	23,832
Treatment plant	1
Lift stations	13
Gallons of wastewater treated per year	3,033,320,000
<b>Parks and Recreation:</b>	
Number of open-space parks	12
Number of passive parks	9
Number of neighborhood parks	13
Number of community parks	9
Number of sports facilities	11
Number of community buildings	14
Number of beach parks	3
Number of regional parks	2
<b>Libraries:</b>	

**TABLE 2**  
**CITY OF SANTA BARBARA**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**Last Ten Fiscal Years**  
**(Unaudited)**

<b>Year ended June 30</b>	<b>General government</b>	<b>Protection of persons and property</b>	<b>Public works</b>	<b>Community services</b>	<b>Community development</b>	<b>Debt service</b>	<b>Capital projects</b>	<b>Total</b>
<b>1995</b>	\$8,434,112	\$26,434,449	\$12,834,901	\$12,634,220	\$6,232,645	\$388,610	\$4,181,977	\$71,140,914
<b>1996</b>	7,668,141	26,821,772	12,818,977	13,687,440	6,246,683	383,697	6,537,132	74,163,842
<b>1997</b>	8,058,399	27,679,036	10,013,258	12,959,715	5,804,710	380,325	6,137,491	71,032,934
<b>1998</b>	8,802,415	27,819,578	13,209,609	14,164,235	7,734,058	375,380	5,844,275	77,949,550
<b>1999</b>	8,849,818	29,463,624	11,127,640	14,832,596	7,217,853	379,975	5,231,513	77,103,019
<b>2000</b>	9,740,787	30,743,295	11,995,002	15,495,150	7,621,581	378,980	5,611,660	81,586,455
<b>2001</b>	10,644,235	33,419,133	12,463,559	16,869,164	8,448,304	377,485	8,157,963	90,379,843
<b>2002</b>	13,477,823	35,678,754	14,522,102	15,926,833	8,688,734	380,340	7,181,880	95,856,466
<b>2003</b>	14,073,912	37,334,337	14,763,879	16,356,265	9,326,797	364,336	8,218,479	100,438,005
<b>2004</b>	11,922,343	42,080,853	17,233,261	18,880,146	9,634,445	354,373	5,421,967	105,527,388

**TABLE 3**

**CITY OF SANTA BARBARA  
GENERAL REVENUES BY SOURCE  
Last Ten Fiscal Years  
(Unaudited)**

<b>Year ended June 30</b>	<b>Taxes</b>	<b>Intergovern- mental</b>	<b>Fines and forfeitures</b>	<b>Use of money and property</b>	<b>Program income</b>	<b>Other</b>	<b>Total</b>
<b>1995</b>	\$ 39,883,037	\$ 11,494,592	\$ 1,702,020	\$ 2,322,022	\$ 11,870,022	\$ 2,024,776	\$ 69,296,469
<b>1996</b>	41,384,958	12,140,853	1,616,650	1,406,824	12,089,424	3,111,663	71,750,372
<b>1997</b>	44,637,479	11,313,354	1,645,155	2,720,718	12,147,479	3,366,660	75,830,845
<b>1998</b>	47,034,729	11,689,221	1,895,337	2,822,584	12,771,735	2,152,792	78,366,398
<b>1999</b>	49,485,363	10,783,960	2,153,178	2,274,341	13,559,208	2,613,936	80,869,986
<b>2000</b>	52,790,540	9,793,137	2,348,050	2,896,929	14,289,561	3,967,120	86,085,337
<b>2001</b>	57,974,296	16,843,650	2,304,365	5,008,626	15,069,572	1,991,138	99,191,647
<b>2002</b>	59,533,617	12,754,376	2,648,995	3,846,600	11,780,778	5,813,998	96,378,364
<b>2003</b>	61,627,317	12,566,575	2,923,982	2,633,847	12,858,387	5,747,841	98,357,949
<b>2004</b>	64,371,987	10,277,663	3,791,799	888,565	15,072,276	6,711,658	101,113,948

**TABLE 4**

**CITY OF SANTA BARBARA  
TAX REVENUES BY SOURCE  
Last Ten Fiscal Years  
(Unaudited)**

<b>Year ended June 30</b>	<b>Sales and use tax</b>	<b>Utility user's tax</b>	<b>Real Property taxes</b>	<b>Business License tax</b>	<b>Transient occupancy tax</b>	<b>Transportation tax</b>	<b>Gas tax</b>	<b>Franchise taxes</b>	<b>Total</b>
<b>1995</b>	\$12,703,453	\$7,032,135	\$6,614,433	\$1,313,562	\$6,445,357	\$2,821,311	\$1,523,663	\$1,429,123	\$39,883,037
<b>1996</b>	13,241,364	7,332,679	7,013,561	1,308,767	6,662,365	2,867,700	1,559,740	1,398,782	41,384,958
<b>1997</b>	14,554,225	8,115,001	6,939,575	1,400,159	7,428,651	2,993,288	1,581,535	1,625,045	44,637,479
<b>1998</b>	15,342,753	8,600,222	7,285,936	1,520,716	7,845,572	3,327,789	1,598,226	1,513,515	47,034,729
<b>1999</b>	16,363,586	8,329,708	7,898,801	1,566,037	8,685,055	3,439,922	1,619,795	1,582,459	49,485,363
<b>2000</b>	17,325,587	8,910,837	8,498,844	1,666,096	9,392,028	3,744,688	1,618,372	1,634,088	52,790,540
<b>2001</b>	18,237,203	9,736,580	9,038,546	1,681,549	11,098,990	4,587,220	1,810,879	1,783,330	57,974,297
<b>2002</b>	17,511,104	9,995,605	9,821,072	1,768,599	11,805,225	4,897,255	1,667,888	2,066,866	59,533,614
<b>2003</b>	17,903,528	11,166,141	11,247,794	1,831,973	11,837,281	4,172,624	1,698,393	1,769,584	61,627,318
<b>2004</b>	18,419,580	11,325,177	11,906,487	1,925,832	12,438,838	4,621,510	1,678,700	2,055,863	64,371,987

Sources: General, Special Revenue and Capital Projects, Debt Service and Private Purpose Trust Funds, excluding the Redevelopment Agency

**TABLE 5**

**CITY OF SANTA BARBARA  
PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years  
(Unaudited)**

<u>Year ended June 30</u>	<u>Current tax collections</u>	<u>Percent of levy collected</u>	<u>Delinquent tax collections</u>	<u>Total tax collections</u>	<u>Total collections as a percent of current levy</u>	<u>Outstanding delinquent taxes</u>	<u>Delinquent taxes as percent of current levy</u>	<u>Current levy</u>
1995	\$5,678,676	88.43%	\$743,069	\$6,421,745	97.31%	\$177,339	2.69%	\$6,599,084
1996	6,383,168	100.00%	-	6,383,168	100.00%	-	-	6,383,168
1997	6,526,342	100.00%	-	6,526,342	100.00%	-	-	6,526,342
1998	6,777,217	100.00%	-	6,777,217	100.00%	-	-	6,777,217
1999	7,291,667	100.00%	-	7,291,667	100.00%	-	-	7,291,667
2000	7,797,472	100.00%	-	7,797,472	100.00%	-	-	7,797,472
2001	8,262,133	100.00%	-	8,262,133	100.00%	-	-	8,262,133
2002	8,867,991	100.00%	-	8,867,991	100.00%	-	-	8,867,991
2003	9,526,284	100.00%	-	9,526,284	100.00%	-	-	9,526,284
2004	10,362,037	100.00%	-	10,362,037	100.00%	-	-	10,362,037

**TABLE 6**

**CITY OF SANTA BARBARA  
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS  
Last Ten Fiscal Years  
(Unaudited)  
(per \$100 of assessed value)**

<u>Year ended June 30</u>	<u>County</u>	<u>City</u>	<u>Schools</u>	<u>Sanitation and water</u>	<u>State water</u>	<u>Total</u>
1995	1.0000	-	0.00102	-	-	1.00102
1996	1.0000	0.00639	0.00122	-	-	1.00761
1997	1.0000	0.01119	0.00104	-	-	1.01223
1998	1.0000	-	0.01106	-	-	1.01106
1999	1.0000	-	0.02221	-	-	1.02221
2000	1.0000	-	0.01919	-	-	1.01919
2001	1.0000	-	0.02724	-	-	1.02724
2002	1.0000	-	0.02799	-	-	1.02799
2003	1.0000	-	0.02707	-	-	1.02707
2004	1.0000	-	0.02530	-	-	1.02530

Article XIII A of the California Constitution (Proposition 13) limits what can be included in property tax rates

Sources: County of Santa Barbara: Tax Rates and Assessed Valuations  
Assessor's Role

**TABLE 7**

**CITY OF SANTA BARBARA  
RATIO OF GENERAL BONDED DEBT TO ASSESSED VALUE AND  
GENERAL BONDED DEBT PER CAPITA AND LEGAL DEBT LIMIT  
Last Ten Fiscal Years  
(Unaudited)**

<u>Year ended June 30</u>	<u>Population (1)</u>	<u>Gross assessed value (2)</u>	<u>General bonded debt</u>	<u>Legal debt limit (3)</u>	<u>Ratio of general bonded debt to assessed value</u>	<u>General bonded debt per capita</u>
1995	88,300	\$6,394,321,449	-	\$639,432,145	-	-
1996	88,800	6,497,018,207	-	649,701,821	-	-
1997	89,700	6,671,177,945	-	667,117,795	-	-
1998	90,500	6,970,240,734	-	697,024,073	-	-
1999	91,000	7,517,528,949	-	751,752,895	-	-
2000	92,100	7,986,828,416	-	798,682,842	-	-
2001	91,429	8,629,458,602	-	862,945,860	-	-
2002	90,696	9,278,889,667	-	927,888,967	-	-
2003	90,464	9,965,554,390	-	996,555,439	-	-
2004	90,473	10,728,262,648	-	1,072,826,265	-	-

Sources: (1) California Department of Finance, Demographic Research Unit

(2) Santa Barbara County, Tax Rates and Assessed Valuation

(3) Legal debt limit is 10% of gross assessed value  
Part III, Assessed valuation by district

**TABLE 8**

**CITY OF SANTA BARBARA**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**Last Ten Fiscal Years**  
**(Unaudited)**  
*(in thousands)*

<b>Year ended June 30</b>	<b>Real assessed value</b>	<b>Net property estimated actual value</b>	<b>Personal assessed value</b>	<b>Property estimated actual value</b>	<b>Gross assessed value</b>	<b>Less other exemptions</b>
<b>1995</b>	\$6,070,968	\$6,070,968	\$323,354	\$323,354	\$6,394,322	\$385,973
<b>1996</b>	6,189,193	6,189,193	307,825	307,825	6,497,018	383,313
<b>1997</b>	6,362,382	6,362,382	308,796	308,796	6,671,178	424,550
<b>1998</b>	6,606,474	6,606,474	363,766	363,766	6,970,240	449,000
<b>1999</b>	7,085,198	7,085,198	432,253	432,253	7,517,451	461,743
<b>2000</b>	7,560,260	7,560,260	426,567	426,567	7,986,827	490,116
<b>2001</b>	8,191,548	8,191,548	437,910	437,910	8,629,458	489,045
<b>2002</b>	8,827,568	8,827,568	451,322	451,322	9,278,890	532,372
<b>2003</b>	9,465,721	9,465,721	499,834	499,834	9,965,555	572,863
<b>2004</b>	10,236,197	10,236,197	492,065	492,065	10,728,262	625,474

<b>Assessed value (less other exemptions)</b>	<b>Exemptions</b>		<b>Total Net</b>		<b>Ratio of net assessed value to total estimated actual value</b>
	<b>Assessed value</b>	<b>Estimated actual value</b>	<b>Assessed value</b>	<b>Estimated actual value</b>	
\$6,008,349	\$87,730	\$87,730	\$5,920,619	\$5,920,619	1:1
6,113,705	88,484	88,484	6,025,221	6,025,221	1:1
6,246,628	89,218	89,218	6,157,410	6,157,410	1:1
6,521,240	89,620	89,620	6,431,620	6,431,620	1:1
7,055,708	90,297	90,297	6,965,411	6,965,411	1:1
7,496,711	90,652	90,652	7,406,059	7,406,059	1:1
8,140,413	90,887	90,887	8,049,526	8,049,526	1:1
8,746,518	90,142	90,142	8,656,376	8,656,376	1:1
9,392,692	90,163	90,163	9,302,529	9,302,529	1:1
10,102,788	89,502	89,502	10,013,286	10,013,286	1:1

**TABLE 9**

**CITY OF SANTA BARBARA  
COMPUTATION OF LEGAL DEBT LIMIT  
June 30, 2004  
(Unaudited)**

Net assessed value	\$ 10,236,197,156
Plus exempt property	<u>492,065,492</u>
Total assessed property	<u>\$ 10,728,262,648</u>
Debt limit - 10% of total assessed values	<u>\$ 1,072,826,265</u>
Amount of debt applicable to debt limit- total bonded debt	\$ -
Less assets in Debt Service Fund available for payment of principal	<u>-</u>
Total amount of debt applicable to debt limit	<u>\$ -</u>
Legal debt margin	<u>\$ 1,072,826,265</u>

**TABLE 10**

**CITY OF SANTA BARBARA  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
June 30, 2004  
(Unaudited)**

Jurisdiction	Net debt outstanding	Percentage applicable to City of Santa Barbara	Less exclusions (1)	Amount applicable to City of Santa Barbara
Direct debt:				
City of Santa Barbara:				
General Fund	\$ 3,725,700	100.00%	\$ -	\$ 3,725,700
Water Fund	42,773,823	100.00%	42,773,823	-
Wastewater Fund	-	100.00%	-	-
Redevelopment Agency - Tax Allocation Bond	82,035,000	100.00%	82,035,000	-
Waterfront	18,195,000	100.00%	18,195,000	-
Golf	1,919,300	100.00%	1,919,300	-
<b>Total direct debt</b>	<b>148,648,823</b>		<b>144,923,123</b>	<b>3,725,700</b>
<b>Total overlapping and direct debt</b>	<b>\$ 148,648,823</b>		<b>\$ 144,923,123</b>	<b>\$ 3,725,700</b>

**TABLE 11**

**CITY OF SANTA BARBARA  
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
GENERAL DEBT TO GENERAL EXPENDITURES  
Last Ten Fiscal Years  
(Unaudited)**

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>	<u>Total general expenditures (1)</u>	<u>Ratio of debt service to expenditures</u>
1995	\$ 110,000	\$ 278,610	\$ 388,610	\$ 71,140,194	0.55
1996	110,000	269,802	379,802	74,161,208	0.51
1997	115,000	265,325	380,325	71,032,934	0.54
1998	115,000	260,380	375,380	77,949,550	0.48
1999	125,000	254,975	379,975	77,103,019	0.49
2000	130,000	248,980	378,980	81,586,455	0.46
2001	135,000	242,485	377,485	90,379,843	0.42
2002	145,000	235,340	380,340	95,856,466	0.40
2003	254,100	109,930	364,030	100,438,005	0.36
2004	204,600	149,773	354,373	105,527,388	0.34

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds, excluding the Redevelopment Agency

Source: City of Santa Barbara, Finance Department

**TABLE 12**  
**CITY OF SANTA BARBARA**  
**SCHEDULE OF WATER FUND DEBT SERVICE COVERAGE**  
**Last Ten Fiscal Years**  
**(Unaudited)**

Year ended June 30	Gross revenues	Operating expenses (1)	Net revenue available for debt service	Debt service requirements			Coverage
				Principal	Interest	Total	
1995	\$ 25,292,552	\$ 11,579,210	\$ 13,713,342	\$ 6,848,419	\$ 3,468,985	\$ 10,317,404	1.33
1996	26,279,051	11,532,629	14,746,422	7,671,292	3,011,963	10,683,255	1.38
1997	26,646,383	13,424,618	13,221,765	8,233,048	2,323,533	10,556,581	1.25
1998	21,662,821	13,458,745	8,204,076	2,122,533	2,007,903	4,130,436	1.99
1999	23,207,547	14,332,680	8,874,867	925,493	1,967,671	2,893,164	3.07
2000	26,280,897	12,429,225	13,851,672	974,414	1,924,826	2,899,240	4.78
2001	25,733,439	15,072,214	10,661,225	1,015,709	1,945,538	2,961,247	3.60
2002	25,161,922	17,930,829	7,231,093	1,062,393	2,753,191	3,815,584	1.90
2003	24,217,862	18,149,041	6,068,821	1,299,590	1,331,062	2,630,652	2.31
2004	25,431,147	18,194,186	7,236,961	1,182,089	1,513,884	2,695,973	2.68

**TABLE 13**

**CITY OF SANTA BARBARA  
SCHEDULE OF WASTEWATER FUND DEBT SERVICE COVERAGE  
Last Ten Fiscal Years  
(Unaudited)**

Year ended June 30	Gross revenues	Operating expenses (1)	Net revenue available for debt service	Debt service requirements			Coverage
				Principal	Interest	Total	
1995	\$ 9,145,465	\$ 5,545,963	\$ 3,599,502	\$ 285,000	\$ 181,196	\$ 466,196	7.72
1996	9,506,835	5,435,802	4,071,033	355,000	164,070	519,070	7.84
1997	9,835,217	5,297,742	4,537,475	365,000	113,855	478,855	9.48
1998	9,650,997	5,356,550	4,294,447	380,000	99,415	479,415	8.96
1999	9,731,233	5,681,796	4,049,437	385,000	84,400	469,400	8.63
2000	9,940,535	6,670,427	3,270,108	400,000	68,800	468,800	6.98
2001	10,368,749	6,639,561	3,729,188	410,000	52,400	462,400	8.06
2002	9,704,473	8,176,560	1,527,913	425,000	41,146	466,146	3.28
2003	9,997,664	8,423,115	1,574,549	435,000	21,228	456,228	3.45
2004	10,231,203	7,920,523	2,310,680	450,000	9,000	459,000	5.03

(1) Excludes depreciation and interest

Source: City of Santa Barbara, Finance Department

**TABLE 14**

**CITY OF SANTA BARBARA  
BUILDING PERMITS AND BANK DEPOSITS  
TAXABLE SALES - CITY AND COUNTY  
Last Ten Calendar Years  
(Unaudited)**

Year	Building Permits (1)		City Bank Deposits (2)	Sales Tax (3)			City as percent of County
	Number	Value		Number of City Tax Permits	City Taxable Transactions	County Taxable Transactions	
1994	1,169	\$31,295,200	\$2,476,291,000	4,718	\$1,085,045,000	\$3,177,546,000	34.1
1995	941	29,997,500	2,475,462,000	4,829	1,104,519,000	3,226,206,000	34.2
1996	1,154	44,700,000	2,480,641,000	4,971	1,175,157,000	3,466,195,000	33.9
1997	1,221	40,500,000	2,400,073,000	4,996	1,253,902,000	3,614,586,000	34.7
1998	2,898	71,864,802	2,532,596,000	4,939	1,354,183,000	3,927,578,000	34.7
1999	3,064	74,763,741	2,572,521,000	4,961	1,439,155,000	4,195,291,000	34.3
2000	3,133	76,267,301	2,918,985,000	4,881	1,542,213,000	4,629,350,000	33.3
2001	2,722	90,268,504	2,911,023,000	4,869	1,580,609,000	4,953,412,000	31.9
2002	2,998	64,170,362	3,272,386,000	4,780	1,551,762,000	5,032,285,000	30.8
2003	3,277	97,297,284	3,759,862,000	4,957	1,563,298,000	5,141,084,000	30.4

Sources: (1) Information provided by City of Santa Barbara Building Inspection Division

(2) Federal Deposit Insurance Corporation (FDIC) - Research and Statistics

(3) Taxable Sales in California - State Board of Equalization - Research and  
and Statistics Division

**TABLE 15**

**CITY OF SANTA BARBARA  
POPULATION ESTIMATES,  
INCOME AND UNEMPLOYMENT FIGURES  
Last Ten Calendar Years  
(Unaudited)**

<u>Year</u>	<u>Population Estimates (1)</u>		<u>Personal Income (1) County</u>	<u>Per Capita Income (1) County</u>	<u>County Unemployment Rate (%)</u>
	<u>City</u>	<u>County</u>			
1995	88,300	382,400	N/A	N/A	6.3
1996	88,800	384,300	N/A	N/A	5.8
1997	89,700	387,700	N/A	N/A	4.1
1998	90,500	391,300	N/A	N/A	3.7
1999	91,000	393,500	N/A	N/A	3.6
2000	92,100	398,200	N/A	N/A	3.1
2001	91,429	404,779	N/A	N/A	3.1
2002	90,696	407,867	N/A	N/A	3.5
2003	90,464	410,277	N/A	N/A	3.6
2004	90,473	414,796	N/A	N/A	3.4

**TABLE 16**

**CITY OF SANTA BARBARA  
TEN LARGEST EMPLOYERS - SOUTH SANTA BARBARA COUNTY (1)  
June 30, 2004  
(Unaudited)**

<u>Entity Name</u>	<u>Activity</u>	<u>Number employed</u>
University of California, Santa Barbara	Education	9,500
County of Santa Barbara	Government	4,467
Santa Barbara Cottage Hospital	Health Care	1,951
Raytheon/ E-Systems	Manufacturer	1,875
Santa Barbara City Community College	Education	1,570
Santa Barbara High School District	Education	1,230
Sansum-Santa Barbara Medical Foundation Clinic	Health Care	1,170
City of Santa Barbara	Government	1,057
U. S. Postal Service	Postal Service	1,005
Santa Barbara Bank & Trust	Bank	820

Note: With the adoption of Article XIII A of the California Constitution in 1978, property tax as an indicator of economic stability/dependency diminished in importance. Accordingly, the Agency has elected to depict the ten largest employers in Santa Barbara County as a measure of overall economic stability of the City.

TABLE 17

CITY OF SANTA BARBARA  
FIDELITY BONDS OF PRINCIPAL OFFICIALS  
Year ended June 30, 2004  
(Unaudited)

<u>Name</u>	<u>Title of Official</u>	<u>Amount of fidelity bond</u>
James Armstrong	Administrator/Clerk/Treasurer	\$ 5,000,000
Robert D. Peirson	Finance Director	5,000,000
All other employees handling money working for the City of Santa Barbara	Various	5,000,000